

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2025

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-39389

DEFSEC Technologies Inc.

(Exact name of Registrant as specified in its charter)

British Columbia

(Jurisdiction of incorporation or organization)

80 Hines Rd, Suite 300, Ottawa, Ontario, K2K 2T8

(Address of principal executive offices)

Jennifer Welsh, (613) 241-1849, welsh@defsectec.com

80 Hines Rd, Suite 300, Ottawa, Ontario, K2K 2T8

(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Shares, no par value	DFSC	Nasdaq Capital Market
Warrants	DFSCW	Nasdaq Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: N/A

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 1,396,321 Common Shares

Indicate by check mark if the Company is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the Company is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the Company (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the Company has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Company was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the Company is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Emerging growth company ☒

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive- based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark which basis of accounting the Company has used to prepare the financial statements included in this filing:

U.S. GAAP ☐

International Financial Reporting Standards as issued By the International Accounting Standards Board ☒

Other ☐

If "Other" has been checked in response to previous question, indicate by check mark which financial statement item the Company has elected to follow. Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the Company is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

TABLE OF CONTENTS

INTRODUCTION	4
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	5
STATUS AS AN EMERGING GROWTH COMPANY	7
FOREIGN PRIVATE ISSUER FILINGS	7
ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS	8
ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE	8
ITEM 3. KEY INFORMATION	8
A. Reserved	8
B. Capitalization and Indebtedness	8
C. Reasons for the Offer and Use of Proceeds	8
D. Risk Factors	8
ITEM 4. INFORMATION ON THE COMPANY	28
A. History and Development of the Company	28
B. Business Overview	41
C. Organizational Structure	57
D. Property, Plants and Equipment	58
ITEM 4A. UNRESOLVED STAFF COMMENTS	58
ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS	58
A. Operating Results	59
B. Liquidity and Capital Resources	65
C. Research and Development, Patents and Licences, etc.	70
D. Trend Information	71
E. Critical Accounting Estimates	71
ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES	74
A. Directors and Senior Management	74
B. Compensation	76
C. Board Practices	88
D. Employees	90
E. Share Ownership	91
F. Disclosure of a registrant's action to recover erroneously awarded compensation	91
ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS	92
A. Major Shareholders	92
B. Related Party Transactions	92
C. Interests of Experts and Counsel	92
ITEM 8. FINANCIAL INFORMATION	93
A. Consolidated Statements and Other Financial Information	93
B. Significant Changes	93
ITEM 9. THE OFFER AND LISTING	93
A. Offer and Listing Details	93
B. Plan of Distribution	93
C. Markets	93
D. Selling Shareholders	95
E. Dilution	95
F. Expenses of the Issue	95
ITEM 10. ADDITIONAL INFORMATION	95
A. Share Capital	95
B. Memorandum and Articles of Association	96
C. Material Contracts	96
D. Exchange Controls	99
E. Taxation	100
F. Dividends and Paying Agents	110
G. Statement by Experts	110
H. Documents on Display	110
I. Subsidiary Information	110
J. Annual Report to Security Holders	110

Table of Contents

<u>ITEM 11.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	110
<u>ITEM 12.</u>	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	110
<u>ITEM 13.</u>	<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	111
<u>ITEM 14.</u>	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	111
<u>ITEM 15.</u>	<u>CONTROLS AND PROCEDURES</u>	111
<u>A.</u>	<u>Disclosure Controls and Procedures</u>	111
<u>B.</u>	<u>Management's Annual Report on Internal Control Over Financial Reporting</u>	111
<u>C.</u>	<u>Attestation Report of Registered Public Accounting Firm</u>	112
<u>D.</u>	<u>Changes in Internal Controls Over Financial Reporting</u>	112
<u>ITEM 16A.</u>	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	112
<u>ITEM 16B.</u>	<u>CODE OF ETHICS</u>	112
<u>ITEM 16C.</u>	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	113
<u>ITEM 16D.</u>	<u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	113
<u>ITEM 16E.</u>	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	113
<u>ITEM 16F.</u>	<u>CHANGE IN COMPANY'S CERTIFYING ACCOUNTANT</u>	114
<u>ITEM 16G.</u>	<u>CORPORATE GOVERNANCE</u>	114
<u>ITEM 16H.</u>	<u>MINE SAFETY DISCLOSURE</u>	115
<u>ITEM 16I.</u>	<u>DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS</u>	115
<u>ITEM 16J.</u>	<u>INSIDER TRADING POLICIES</u>	115
<u>ITEM 16K.</u>	<u>CYBERSECURITY</u>	116
<u>ITEM 17.</u>	<u>FINANCIAL STATEMENTS</u>	117
<u>ITEM 18.</u>	<u>FINANCIAL STATEMENTS</u>	117
<u>ITEM 19.</u>	<u>EXHIBITS</u>	119

INTRODUCTION

In this Annual Report on Form 20-F (the “Annual Report”), “DEFSEC,” “Company,” “we,” “us” and “our” refer to DEFSEC Technologies Inc. and its consolidated subsidiaries.

Information contained in this Annual Report is given as of September 30, 2025, the fiscal year end of Company, unless otherwise specifically stated.

Market and industry data used throughout this Annual Report was obtained from various publicly available sources. Although the Company believes that these independent sources are generally reliable, the accuracy and completeness of such information are not guaranteed and have not been verified due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and the limitations and uncertainty inherent in any statistical survey of market size, conditions and prospects.

Statements made in this Annual Report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we file any of these documents as an exhibit to this Annual Report, you may read the document itself for a complete description of its terms.

Unless otherwise indicated, all references in this Annual Report to “dollars” or “CAD” or “\$” are to Canadian dollars and all references to “USD”, “US\$” or “USD\$” are to United States dollars.

The following table sets forth the rate of exchange for the Canadian dollar, expressed in United States dollars in effect at various times.

Canadian Dollars to U.S. Dollars	Year Ended September 30, 2025	Year Ended September 30, 2024
High for period	0.7412	0.7573
Low for period	0.6848	0.7207
Average rate for period	0.7152	0.7349
Rate at end of period	0.7183	0.7408

The daily average exchange rate on December 24, 2025 as reported by the Bank of Canada for the conversion of USD into CAD was USD\$1.00 equals CAD\$1.3674.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains “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/or 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 ability to deliver under contracts with customers;
- anticipated revenue and related margin from professional service contracts with customers;
- 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 our 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;
- potential cancellation or loss of customer contracts if we are unable to meet contract performance requirements;
- expansion to other jurisdictions;
- damage to our reputation;
- operating risk and insurance coverage;
- negative operating cash flows;
- management of growth;
- product liability;
- product recalls;
- environmental regulations and risks;
- ownership and protection of intellectual property;
- constraints on marketing products;

[Table of Contents](#)

- reliance on management;
- fraudulent or illegal activity by our employees, contractors and/or 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 regarding public or employee health and safety regulations, including public health measures in the event of pandemics or epidemics;
- regulatory or agency proceedings, investigations and/or audits;
- additional capital requirements to support our operations and growth plans, leading to further dilution to shareholders;
- the terms of additional capital raises;
- conflicts of interest;
- litigation;
- risks related to United States' and other international activities, including regional conflicts that may impact our operations;
- 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;
- risks related to our emerging growth company status;
- risks related to meeting the continued listing requirements of the Nasdaq Capital Market ("Nasdaq");
- risks related to the liquidity of the common shares of the Company (the "Common Shares");
- significant changes or developments in United States trade policies and tariffs that may have a material adverse effect on our business and financial statements;
- risks related to United States tariffs, including potential supply chain disruptions, required operational adjustments, increased costs and potential logistical disruptions;
- risks related specifically to United States tariffs on aluminum and steel; and
- risks related to retaliatory tariffs imposed by Canada's government affecting potential foreign sales.

Although the forward-looking statements contained in this Annual Report 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 in this Annual Report 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 in this Annual Report 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.

STATUS AS AN EMERGING GROWTH COMPANY

We are an “emerging growth company” as defined in Section 3(a) of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”) by the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”), and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. We 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 had total annual gross revenues of USD\$1,235,000,000 (as such amount is indexed for inflation every 5 years by the United States Securities and Exchange Commission (“SEC”)) or more; (b) the last day of our fiscal year following the fifth anniversary of the date of the first sale of equity securities pursuant to an effective registration statement under the United States Securities Act of 1933, as amended (the “Securities Act”); (c) the date on which we have, during the previous 3-year period, issued more than USD\$1,000,000,000 in non-convertible debt; or (d) the date on which we are deemed to be a “large accelerated filer”, as defined in Exchange Act Rule 12b-2. We expect to continue to be an emerging growth company for the immediate future.

Generally, a registrant that registers any class of its securities under Section 12 of the Exchange Act is required to include in the second and all subsequent annual reports filed by it under the Exchange Act a management report on internal control over financial reporting and, subject to an exemption available to registrants that are neither an “accelerated filer” or a “large accelerated filer” (as those terms are defined in Exchange Act Rule 12b-2), an auditor attestation report on management’s assessment of internal control over financial reporting. However, for so long as we continue to qualify as an emerging growth company, we will be exempt from the requirement to include an auditor attestation report on management’s assessment of internal controls over financial reporting in its annual reports filed under the Exchange Act, even if we were to qualify as an “accelerated filer” or a “large accelerated filer”. In addition, Section 103(a)(3) of the Sarbanes-Oxley Act of 2002 (the “SOX”) has been amended by the JOBS Act to provide that, among other things, auditors of an emerging growth company are exempt from any rules of the Public Company Accounting Oversight Board requiring a supplement to the auditor’s report in which the auditor would be required to provide additional information about the audit and the financial statements of the company.

FOREIGN PRIVATE ISSUER FILINGS

We are considered a “foreign private issuer” pursuant to Rule 405 promulgated under the Securities Act. In our capacity as a foreign private issuer, we are exempt from certain rules under the Exchange Act that impose certain disclosure obligations and procedural requirements for proxy solicitations under Section 14 of the Exchange Act. 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 and the rules under the Exchange Act with respect to their purchases and sales of our shares. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act. In addition, we are not required to comply with Regulation FD, which restricts the selective disclosure of material information. For as long as we are a “foreign private issuer” we intend to file our annual financial statements on Form 20-F and furnish our quarterly financial statements on Form 6-K to the SEC for so long as we are subject to the reporting requirements of Section 13(g) or 15(d) of the Exchange Act. However, the information we file or furnish may not be the same as the information that is required in annual and quarterly reports on Form 10-K or Form 10-Q for United States domestic issuers. Accordingly, there may be less information publicly available concerning us than there is for a company that files as a domestic issuer.

We may take advantage of these exemptions until such time as we are no longer a foreign private issuer. We are required to determine our status as a foreign private issuer on an annual basis at the end of our second fiscal quarter. We would cease to be a foreign private issuer at such time as more than 50% of our outstanding voting securities are held by United States residents and any of the following three circumstances applies: (1) the majority of our executive officers or directors are United States citizens or residents; (2) more than 50% of our assets are located in the United States; or (3) our business is administered principally in the United States. If we lose our “foreign private issuer status” we would be required to comply with Exchange Act reporting and other requirements applicable to United States domestic issuers, which are more detailed and extensive than the requirement for foreign private issuers.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Reserved.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

The Company's operations and financial performance are subject to the normal risks of its industry and are subject to various factors which are beyond the control of the Company. Certain of these risk factors are described below. The risks described below are not the only ones facing the Company. Additional risks not currently known to the Company, or that it currently considers immaterial, may also adversely impact the Company's business, operations, financial results or prospects, should any such other events occur.

Risks Relating to Our Business

We are an early-stage company.

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

We currently have negative operating cash flows.

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

- progress of our manufacturing, licensing, and distribution activities;
- collaborative license agreements with third parties;
- opportunities to license-in beneficial technologies or potential acquisitions;
- potential milestone or other payments that we may make to licensors or corporate partners;

[Table of Contents](#)

- 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, labour, 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 of certain of our product offerings during our fiscal year ending September 30, 2025 ("Fiscal 2025"), 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, as well as continued growth of our government service contracts. 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.

Between December 31, 2021, and September 30, 2025, we have experienced higher than normal global inflation rates, resulting in higher than normal increases 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.

As we are not yet in the high volume production phase for the 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 labour costs relating to research and development ("R&D") activities. During our Fiscal 2025, 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 prospective 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.

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 2025 is considered to be non-recurring. We have significantly reduced our reliance on non-recurring revenues during Fiscal 2025 with the staffing of Directorate Land Command Systems Program Management Software Engineering Facility ("DSEF") and the land command, control, communications, computers, intelligence, surveillance and reconnaissance ("Land C4ISR") resources.

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 R&D, 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 original equipment manufacturers (“OEMs”) for the manufacturing and distribution of our products. There can be no assurance that such strategic alliances can be achieved or will achieve their goals.

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

We are only able to purchase certain key components of our products from a limited number of suppliers for our ARWEN product line within our less-lethal business line. As of the date of this Annual Report, 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.

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

As we expect to commercialize certain of our product lines in our fiscal year ending September 30, 2026 (“Fiscal 2026”), 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 global instability, 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 SHOT™ 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 less-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, OEMs 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 products.

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. 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 tariffs, laws and policies relating to the repatriation of funds and withholding taxes, changes in these laws and non-trade barriers
- 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, pandemics, other health crises 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.

The loss of services of members of our management team may have a material adverse effect on our business, financial condition, and results of operations.

Our success depends in large part upon the continued service of key members of our management team. 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, may 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 IT, 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 on the 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 on the 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 (see *Item 4.B. - Business Overview*), 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 OEMs. 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. Additionally, any intellectual property we develop could be restricted or appropriated by the U.S. government if deemed critical to national security.

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.

Changes to U.S. or other countries' trade policies and tariff and import/export regulations and rates, or our failure to comply with such regulations may have an adverse effect on our business, financial condition, and results of operations.

Changes in import and export policies, including trade restrictions, new or increased tariffs or quotas, embargoes, sanctions and countersanctions, safeguards or customs restrictions by the U.S. and/or other foreign governments, and/or general uncertainty about potential changes in such policies, could require us to change the way we conduct business and/or adversely affect our financial condition, results of operations, reputation, and our relationships with customers, vendors, and employees in the short- or long-term.

The U.S. government recently announced tariffs on product imports from certain countries. The current environment is dynamic and uncertain, as the U.S. President has imposed, modified and paused tariffs, and granted exemptions from tariffs, on different countries and products multiple times since taking office in January 2025. These actions have resulted in reciprocal tariffs or other countermeasures from other countries, and may result in further retaliatory measures on U.S. goods. If implemented and maintained, these tariffs and the potential escalation of trade disputes could pose a risk to our business that could affect our revenue and our expenses as certain of our products are manufactured in United States. Our domestic suppliers may incur tariffs leading to increased prices. We are closely monitoring this evolving situation and evaluating our responses, which may include shifts in sourcing strategies, price adjustments, or other cost-mitigation measures. However, there can be no assurance that we will be able to fully mitigate the financial and competitive impacts of such tariffs or trade restrictions. In addition, changing U.S. tariff and trade policies could cause higher inflation, higher interest rates and slower economic growth or recession in the U.S., which could adversely affect demand for our products and services. At this time, the overall impact on our business related to these tariffs and trade policies remains uncertain and depends on multiple factors, including the duration and potential expansion of current tariffs, future changes to tariff rates, scope, or enforcement, retaliatory measures by impacted exporting countries, inflationary effects and broader macroeconomic responses, changes to consumer purchasing behavior, and the effectiveness of our responses in managing these challenges. Further, actions we take to adapt to new tariffs or trade restrictions may increase risk or may cause us to modify our operations, which could be time-consuming and expensive; impact pricing, which could impact our sales, profitability, and our reputation; or cause us to forgo business opportunities.

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.

For the years ended September 30, 2025, 2024 and 2023, 7%, 10%, and 3%, respectively, of the Company’s revenue was denominated in U.S. dollar driven by contracts with U.S. prime contractors in the defense sector. 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.

[Table of Contents](#)

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 Annual Report, 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, the “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 SHOT™ business line:

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

While our PARA SHOT™ devices are less-lethal (based on the kinetic energy of our projectiles), these are automatically classified as a form of 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 SHOT™ single shot device as not only a firearm, but a “destructive device” in accordance with the ATF regulations. We intend to self-classify our other PARA SHOT™ devices as a form of a firearm under ATF regulations until such time as we have found an alternative for primers (i.e., a non-pyrotechnic gas generator) to launch our projectiles, and therefore be subject to ATF regulations. We are currently reviewing an alternative to replace the primer with actuator technology that is in the developmental phase and accordingly, there is no assurance that we will succeed and consequently the replacement of the primer 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 SHOT™ 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 a federal firearms license (“FFL”) manufacturer for the production and distribution of our PARA SHOT™ 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.

See *Item 4.B. - Business Overview – Government Regulations – Less-Lethal* for a summary of relevant regulation in the United States for our less-lethal business line.

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 R&D 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.

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.

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 guarantee 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 difficulty 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 costs 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 in equity securities of issuers that are similarly situated to us. 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 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 have been listed on the TSX Venture Exchange (“TSXV”) since September 22, 2020, Nasdaq since December 7, 2022, and the Frankfurt Stock Exchange since March 29, 2022. Additionally, the warrants issued on December 9, 2022, in the public offering in the United States (the “U.S. IPO Warrants”) are listed on Nasdaq and the Canadian Warrants issued in the Canadian Offering on September 13, 2022, are listed on the TSXV. There can be no assurance an active and liquid market for the Common Shares, Canadian Warrants or U.S. IPO Warrants will be maintained.

If we fail to comply with any of the continued listing requirements of the TSXV or Nasdaq, such stock exchange may take enforcement actions, which could include the suspension or delisting of the Common Shares. In the event of a suspension or delisting, the liquidity of the Common Shares would likely be materially and adversely affected, investors may have difficulty buying or selling the Common Shares, and the market price of the Common Shares could decline significantly. In addition, a delisting could impair the Company’s ability to raise additional capital, limit its ability to use its securities for acquisitions or other strategic transactions, and result in increased volatility and reduced analyst coverage. Any of the foregoing could have a material adverse effect on the Company’s business, financial condition, results of operations and prospects.

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.

We are subject to the requirements of SOX. Section 404 of SOX (“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 JOBS Act, as amended, we are 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 SOX. Under this exemption, our independent auditor is 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 SOX. 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.

Risk Related to Our Securities

If the Company were to constitute a “passive foreign investment company” or “PFIC”, adverse U.S. federal income tax consequences may result for U.S. investors.

The Company believes that it was not a PFIC (as defined below under the heading “*Certain United States Federal Income Tax Considerations*”) for its most recently completed tax year. The Company’s PFIC classification for its current or future tax years is uncertain and may depend on, among other things, how quickly the Company may raise cash pursuant to recent offerings, the manner in which, and how quickly, the Company utilizes its cash on hand and the cash proceeds received from recent offerings, as well as on changes in the market value of its Common Shares. Whether the Company is a PFIC for any taxable year will also depend on the composition of its income and the composition, nature and value of its assets from time to time (including the value of its goodwill, which may be determined by reference to the value of the Common Shares, which could fluctuate). Additionally, the analysis depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. No opinion of legal counsel or ruling from the IRS concerning the status of the Company as a PFIC has been obtained or is currently planned to be requested. PFIC classification is fundamentally factual in nature, generally cannot be determined until the close of the tax year in question, and is determined annually. Consequently, there can be no assurance that the Company has never been, is not, and will not become a PFIC for any tax year during which a U.S. Holder (as defined below under the heading “*Certain United States Federal Income Tax Considerations*”) holds Common Shares. If the Company is a PFIC for any year during a U.S. Holder’s holding period of Common Shares, then such U.S. Holder generally will be required to treat any gain realized upon a disposition of its Common Shares, or any so-called “excess distribution” received on its Common Shares, as ordinary income, and to pay an interest charge on a portion of such gain or distribution. In certain circumstances, the sum of the tax and the interest charge may exceed the total amount of proceeds realized on the disposition, or the amount of excess distribution received, by the U.S. Holder. Subject to certain limitations, these tax consequences may be mitigated if a U.S. Holder makes a timely and effective QEF Election (as defined below under the heading “*Certain United States Federal Income Tax Considerations*”) or a Mark-to-Market Election (as defined below under the heading “*Certain United States Federal Income Tax Considerations*”). U.S. Holders should be aware that, for each tax year, if any, that the Company is a PFIC, the Company can provide no assurances that it will satisfy the record-keeping requirements of a PFIC, or that it will make available to U.S. Holders the information such U.S. Holders require to make a QEF Election with respect to the Company or any subsidiary that also is classified as a PFIC. Accordingly, prospective investors should assume that a QEF Election will not be available. A U.S. Holder that makes the Mark-to-Market Election with respect to the Common Shares generally must include as ordinary income each year the excess of the fair market value of the Common Shares over the U.S. Holder’s adjusted tax basis therein. This paragraph is qualified in its entirety by the discussion below under the heading “*Certain United States Federal Income Tax Considerations — Passive Foreign Investment Company Rules*.” Each potential investor who is a U.S. taxpayer should consult its own tax advisor regarding the tax consequences of the PFIC rules and the acquisition, ownership, and disposition of the Common Shares.

Proposed legislation in the U.S. Congress, including changes in U.S. tax law, may adversely impact the Company and the value of the Common Shares.

Changes to U.S. tax laws (which changes may have retroactive application) could adversely affect the Company or holders of Common Shares. In recent years, many changes to U.S. federal income tax laws have been proposed and made, and additional changes to U.S. federal income tax laws are likely to continue to occur in the future.

The U.S. Congress is currently considering numerous items of legislation which may be enacted prospectively or with retroactive effect, which legislation could adversely impact the Company’s financial performance and the value of the Common Shares. Such proposed legislation remains subject to change, and its impact on the Company and purchasers of the Common Shares is uncertain.

Our status as a Foreign Private Issuer under United States Securities Laws.

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.

[Table of Contents](#)

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.

As a foreign private issuer, we follow certain home country corporate governance practices instead of certain Nasdaq corporate governance requirements applicable to United States domestic companies.

As a foreign private issuer whose securities are listed on Nasdaq, we are permitted to follow certain home country corporate governance practices in lieu of certain corporate governance requirements otherwise applicable to U.S. domestic issuers under Nasdaq rules. As disclosed in this Annual Report, we currently rely on certain of these exemptions. To the extent we continue to rely on, or elect to rely on additional, foreign private issuer exemptions in the future, the level of corporate governance oversight and disclosure applicable to us may differ from that of U.S. domestic issuers. Accordingly, our shareholders may not be afforded the same protection as those provided under Nasdaq corporate governance rules for U.S. domestic issuers.

We are an emerging growth company and rely on exemptions from certain disclosure requirements which may make our Common Shares less attractive to investors.

We are an “emerging growth company” as defined in section 3(a) of the Exchange Act (as amended by the JOBS Act, enacted on April 5, 2012), and we 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\$1,235,000,000 (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 our 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\$1,000,000,000 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 its common equity held by non-affiliates will be USD\$700,000,000 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 Common Shares or warrants less attractive because we rely upon certain of these exemptions. If some investors find our Common Shares or warrants less attractive as a result, there may be a less active trading market for the Common Shares or warrants and the price per Common Share and warrant 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 our 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 fail to meet the continued listing requirements of Nasdaq which 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 and/or warrants issued in our U.S. IPO (as defined below). Such a delisting would have a materially adverse effect on the price of our outstanding securities, impair the ability to sell or purchase our Common Shares or securities convertible or exercisable into Common Shares when persons wish to do so, and materially adversely affect our ability to raise capital or pursue strategic restructuring, refinancing or other transactions on acceptable terms, or at all.

To maintain the listing of our Common Shares on Nasdaq, we must satisfy minimum financial and other continued listing requirements and standards, including those related to the price of our Common Shares. Pursuant to the requirements of Nasdaq, if the closing bid price of a company's stock falls below US\$1.00 per Common Share for 30 consecutive business days (the "Minimum Bid Requirement"), Nasdaq will notify the company that it is no longer in compliance with the Nasdaq listing qualifications. If a company is not in compliance with the Minimum Bid Requirement, the company will have 180 calendar days to regain compliance.

There can be no assurance that we will maintain compliance with the Minimum Bid Requirement and the other listing requirements of the Nasdaq, or that we will not be delisted. If we are not able to stay in compliance with the Minimum Bid Requirement, there is a risk that the Common Shares may be delisted from Nasdaq, which would adversely impact liquidity of our Common Shares and potentially result in even lower bid prices for our Common Shares.

A 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. 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 Minimum Bid Requirement or prevent future non-compliance with Nasdaq's listing requirements.

The liquidity of our Common Shares may be decreased as a result of the 2024 Reverse Split and the 2025 Reverse Split.

On October 10, 2024, the Company announced that it will effect a consolidation of the Company's issued and outstanding Common Shares on the basis of ten (10) pre-consolidation Common Shares for each one (1) post-consolidation Common Share (the "2024 Reverse Split"). The 2024 Reverse Split was effective on October 23, 2024.

On April 21, 2025, the Company announced that it will effect a consolidation of the Company's issued and outstanding Common Shares on the basis of twenty-one (21) pre-consolidation Common Shares for each one (1) post-consolidation Common Share (the "2025 Reverse Split", and together with the 2024 Reverse Split, the "Reverse Splits"). The 2025 Reverse Split was effective at 12:01 a.m. Eastern Daylight Time April 23, 2025, on the Nasdaq and was effective at 12:01 a.m. Eastern Daylight Time on April 24, 2025, on the TSXV.

The liquidity of the shares of our Common Shares may be affected adversely by the Reverse Splits given the reduced number of shares that are now outstanding, especially if the market price of our Common Shares does not increase as a result of the Reverse Splits. In addition, the Reverse Splits may increase the number of shareholders who own odd lots (less than 100 shares) of our Common Shares, creating the potential for such stockholders to experience an increase in the cost of selling their shares and greater difficulty effecting such sales.

Although we believe that a higher market price of our Common Shares may help generate greater or broader investor interest, there can be no assurance that our increased share price following the Reverse Splits will actually attract new investors, including institutional investors. In addition, there can be no assurance that the market price of our Common Shares will satisfy the investing requirements of those investors. As a result, the trading liquidity of our Common Shares may not necessarily improve.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Name, Address and Incorporation

DEFSEC Technologies Inc. is a corporation domiciled in Canada and was incorporated under the BCBCA on November 28, 2017. On June 30, 2025, the Company changed its name from KWESST Micro Systems Inc. to DEFSEC Technologies Inc. We develop and commercialize next-generation tactical systems for military, security, and personal defense markets. Key market segments and solutions addressed by our proprietary solutions are:

- (i) less-lethal products with broad application in the professional and personal defense market,
- (ii) modernized digitization of tactical teams for shared real-time situational awareness in the military and public safety markets, and
- (iii) counter-measures against threats such as drones, lasers and electronic detection for the military market.

Our business activities are carried on by our wholly-owned subsidiaries, see Item 4.C. - *Organizational Structure*.

Our registered office is located at 2900 – 550 Burrard Street, Vancouver, British Columbia V6C 0A3 and our principal place of business is located at 80 Hines Rd, Suite #300, Ottawa, Ontario, Canada, K2K 2T8.

The transfer agent and registrar of the Company is TSX Trust Company, 650 West Georgia St. Suite 2700 Vancouver, British Columbia V6B 4N9.

Our Common Shares are listed and posted for trading on Nasdaq under the symbol “DFSC”, the TSXV under the trading stock symbol “DFSC.V” and the Frankfurt Stock Exchange under the stock symbol of “62U2”. Certain of our warrants are listed and posted for trading on Nasdaq under the symbol “DFSCW”.

Following the closing of the Qualifying Transaction on September 17, 2020 (as defined below) pursuant to the policies of the TSXV, we changed our fiscal year end from December 31st to September 30th.

The SEC maintains an internet site at <http://www.sec.gov/edgar> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our internet site is <https://www.kwesst.com>; our telephone number is (613) 241-1849.

Events in the Development of the Business

All share-related information presented in this section gives effect to the Reverse Splits.

Inception to 2019 Highlights

DEFSEC was formed in April 2017. DEFSEC was founded to pursue advanced projects within the defense and security fields. We opened our offices in Ottawa, Ontario in May of 2017 and began development of what would become our core technology, TASCs. Our TASCs consists of a sensor package mounted to a soldier weapon and a display running a user interface program typically known as the Battlefield Management System (“BMS”).

Between May and September of 2017, we developed the first-generation prototype of the sensor package forming part of TASCs, combined with a basic BMS. DEFSEC started to collaborate with a United States military drone supplier, AeroVironment, Inc. (“AeroVironment”).

In March 2018, we successfully integrated AeroVironment’s drone data feed into DEFSEC’s TASCs.

[Table of Contents](#)

From April 20, 2018, to December 14, 2018, DEFSEC completed several financings (collectively “DEFSEC 2018 Financing”) in the amount of \$940,255 by way of revenue sharing agreements, related party loans and 10% convertible debentures to fund our working capital requirements.

2019 Highlights

On April 12, 2019, we won our first contract with AeroVironment valued at USD\$100,000. In August 2019, we were in discussions with AeroVironment for a further contract to integrate our TASCs Indirect Fire Modules System (“TASCs IFM”) with AeroVironment’s Augmented Weapon Sight technology for the preproduction development of 60mm and 81mm mortar and machine gun mounts. This was delayed to April 2020 due to COVID-19 restrictions.

On October 1, 2019, we entered into an executive service agreement with DEFSEC Corporation (“DEFSEC Corp.”) in which its CEO, David Luxton, agreed to serve as our Chairman (refer to *Compensation* for remuneration information).

On October 24, 2019, we completed a private placement of Common Shares for gross proceeds of \$1,015,000 at a price of \$2,940 per Common Share, resulting in the issuance of 345 Common Shares.

On October 24, 2019, the revenue sharing agreements and convertible debentures that we issued as part of the DEFSEC 2018 Financing were settled by the issuance of: (i) 211 Common Shares, and (ii) \$234,515 in principal amount of convertible notes, bearing interest at a rate of 10% per annum.

On November 18, 2019, we entered into a non-exclusive licensing agreement with AerialX Drone Solutions Inc. (“AerialX”) and licensed a technology required to manufacture, operate and use a drone whose principal function and purpose is to act as a projectile to intercept aerial threats using kinetic force.

During the quarter ended December 31, 2019, we started developing proprietary laser defense products to protect ground forces from a portable laser attack weapon developed and produced by a foreign adversary.

Fiscal 2020 Highlights

On January 30, 2020, we completed a private placement of 179 Common Shares at a price of \$5,880 per Common Share for gross proceeds of \$1,050,000.

On March 1, 2020, we entered into a consulting agreement with SageGuild, LLC (“SageGuild”) to provide United States business development support to facilitate the integration of our solutions/services into the U.S. Department of Defense markets. The monthly consulting fee comprised of cash and 2 Common Shares at a price of \$7,350 per Common Share. In preparation for a go-public transaction, the Common Shares issuable in satisfaction of the consulting fee were amended to stock options starting from May 31, 2020, in which the exercise price was satisfied by services rendered by SageGuild.

On March 25, 2020, we completed a private placement of 58 Common Shares at a price of \$7,350 per Common Share for gross proceeds of approximately \$422,875.

On April 30, 2020, Foremost Ventures Corp. (“Foremost”), together with its wholly owned subsidiary, Subco, entered into an amalgamation agreement with KWESST Inc. pursuant to which Subco and KWESST Inc. agreed to amalgamate (the “Amalgamation”) to complete an arm’s length qualifying transaction, in accordance with the policies of the TSXV (the “Qualifying Transaction” or “QT”).

On April 25, 2020, AeroVironment issued an additional purchase order valued at USD\$635,000 to provide increased capability to the AWS system. This generated approximately \$530,000 of revenue in our fiscal year ended September 30, 2020 (“Fiscal 2020”).

[Table of Contents](#)

On May 8, 2020, we issued an aggregate amount of \$1,115,034 in convertible notes comprised of (i) \$1,081,504 in principal amount of convertible notes convertible at \$6,615 per Common Share, bearing interest at a rate of 15% per annum and (ii) a convertible note with a principal amount of \$33,530 issued to a third party for services rendered in connection with the private placement, all of which, including accrued interest thereon, were automatically converted into 177 Common Shares upon closing of the Qualifying Transaction on September 17, 2020. Additionally, as an inducement, the note holders were entitled to receive 25% of the principal amount in the form of Common Shares based on a stock price of \$6,615 per Common Share, resulting in the issuance of 41 Common Shares concurrently with the above conversion event.

On June 12, 2020, we entered into a technology agreement with SageGuild pursuant to which DEFSEC acquired GhostStep technology (the “GhostStep Technology Purchase Agreement”). We have since rebranded it as Phantom. The total purchase consideration was valued at approximately \$482,000. For further information, see *Item 4.A. – History and Development of the Company - Principal Capital Expenditures and Divestitures*.

On July 9, 2020, DEFSEC issued 300 subscription receipts of DEFSEC at \$10,292 per subscription receipt for aggregate gross proceeds of approximately \$3,087,138, before share issuance costs. As part of the Qualifying Transaction, in September 2020, the 300 subscription receipts were converted into Common Shares, which were subsequently cancelled, and Common Shares were issued in exchange therefore.

On July 20, 2020, we won a contract with a United States military customer valued at USD\$405,000 to integrate our TASCs IFM with a mortar system.

On September 17, 2020, DEFSEC completed the Qualifying Transaction with Foremost. The Amalgamation was structured as a three-cornered amalgamation and, as a result, the amalgamated corporation, named “KWESST Inc.”, became a wholly owned subsidiary of Foremost, which changed its name to “KWESST Micro Systems Inc.” Immediately following the completion of the Amalgamation, there were 2,807 Common Shares outstanding, and the former shareholders of KWESST Inc., along with the holders of the subscription receipts and convertible notes of KWESST Inc., owned approximately 97.8% of the issued and outstanding Common Shares. This constituted a reverse acquisition for accounting purposes under IFRS.

On September 22, 2020, the Common Shares began trading on the TSXV under the stock symbol “KWE”.

Fiscal 2021 Highlights

On December 16, 2020, following successful trials, a United States military customer awarded a follow-on order of USD\$799,000 with new hardware and software requirements coupled with additional military trials.

On January 14, 2021, we entered into a definitive technology purchase agreement to acquire the Low Energy Cartridge (“LEC”) technology from DEFSEC (the “DEFSEC Purchase Agreement”), a proprietary less-lethal cartridge-based firing system (rebranded as the “PARA SHOTTM” system) for a total purchase consideration of approximately \$2.9 million, subject to closing conditions. For further information, see *Item 4.A. – History and Development of the Company - Principal Capital Expenditures and Divestitures*.

On February 4, 2021, the Common Shares commenced quotation on the OTCQB under the stock symbol “KWEMF.”

On April 5, 2021, DEFSEC and AerialX entered into an amended and restated license agreement in which we obtained exclusive rights to manufacture, operate, and use its drone for the Counter Unmanned Aerial Systems (“C-UAS”) market, for the United States Department of Defense and Canada’s Department of National Defense. For further information, see *Item 4.A. – History and Development of the Company - Principal Capital Expenditures and Divestitures*.

On April 29, 2021, we completed a private placement of 243 units at a price of \$18,375 per unit for gross proceeds of approximately \$4,470,071 (the “April 2021 Private Placement”), as amended in August 2021. Each unit consisted of 210 Common Shares and 14,700 Common Share purchase warrants, exercisable at a price of \$367.50 for each Common Share (14,700 warrants for 210 Common Shares) for a period of 24 months. Following this closing, we also closed the acquisition of the PARA SHOTTM system on the same day.

[Table of Contents](#)

On July 9, 2021, we held our first live demonstration of the PARA SHOT™ system in Whistler, British Columbia. Following this successful live demonstration, on July 12, 2021, we announced details of our commercialization road map for the PARA SHOT™ system, including the unveiling of our products at the 2022 SHOT Show® in Las Vegas, Nevada to be held January 18 to 21, 2022.

On July 21, 2021, we announced that Brandon Tatum agreed to be our strategic advisor and advocate for the LEC System. Mr. Tatum is a former Tucson Police Officer and runs a successful YouTube channel called “The Officer Tatum”, with over 1.9 million subscribers, as well as other social media platforms and a nationally syndicated radio show on the Salem Radio Network.

On August 31, 2021, the Common Share purchase warrants issued in the April 2021 Private Placement were listed for trading on the TSXV under the stock symbol “KWE.WT.U”

On September 16, 2021, we completed a private placement of 51 units at a price of \$29,400 per unit for gross proceeds of approximately \$1,500,000. Each unit consisted of 210 Common Shares and 14,700 Common Share purchase warrants, exercisable at a price of \$493.50 for each Common Share (14,700 warrants for 210 Common Shares) for a period of 24 months.

On September 28, 2021, we announced our strategic partnership with Stryk Group USA for the commercialization of our PARA SHOT™ system in the United States.

Fiscal 2022 Highlights

On October 4, 2021, we announced the introduction to market of our Phantom electronic battlefield decoy, including advanced negotiation with a global defense contractor to provide Phantom units as part of the contractor tender for armored vehicles to a large NATO customer. There were only two bidders that have qualified for this opportunity.

On October 13, 2021, we announced that we are accelerating the readiness of deployable and man-wearable Battlefield Laser Detection Systems (“BLDS”) for first deliveries available by end of Q1 of our fiscal year ended September 30, 2022 (“Fiscal 2022”), following military interest from a number of NATO land and Special Operation Forces at the signature European defense show, DSEI, which took place in London, UK, on September 13 to 18, 2021. While no deliveries took place in Fiscal 2022, on November 2, 2022, we won our first customer order of USD\$330,000 from Nordic Defence & Security AS of Oslo, Norway, a trading and consulting agency offering solutions for the army, navy, and air force in addition to other professional users such as the police, fire departments and different security dependent organizations, for the provision of four BLDS to be delivered by May 2, 2023. These BLDS units were to be mounted and integrated on the new combat patrol vehicles for Norwegian Special Operating Forces (“SOF”) now in prototype build. Through this initial order, we are well positioned to supply a higher quantity of BLDS if the Norwegian SOF combat vehicle proceeds into full production. There is no assurance on timing or that we will receive additional orders for our BLDS from Norwegian SOF.

On November 12, 2021, we announced that General Dynamics Land Systems (“GDLS”) selected DEFSEC’s Phantom electronic battlefield decoy as part of its ongoing efforts to develop a next generation multi-million domain mobile capability at the tactical level. If GDLS wins the contract with their United States military customer, we have estimated the potential value for this contract to DEFSEC could be more than USD\$40 million, depending on the number of Phantom units per military vehicle and final pricing based on volume. Accordingly, there is no assurance that we will be awarded this contract or if we are, what the value of such contract will be to DEFSEC.

On November 15, 2021, we conducted live fire demonstration for investors of our initial less-lethal cartridge-based single shot device near Toronto, Ontario, including an opportunity for these investors to use the devices. Further, on January 14, 2022, we announced the unveiling of our less-lethal cartridge-based products under the brand PARA SHOT™ at the 2022 SHOT Show® in Las Vegas held on January 18 to 21, 2022.

On November 23, 2021, in connection with an updated capital markets strategy, we submitted our initial application to list our Common Shares on Nasdaq.

On December 2, 2021, we announced that we engaged the New York-based public relations firm AMW Public Relations to lead our public relations, brand strategy, and media communication initiatives.

On December 8, 2021, our United States military customer accepted the delivery of the final milestone of the USD\$0.8 million relating to the integration of our TASCs IFM with the 81 mortar system. Final payment was received in January 2022.

[Table of Contents](#)

On December 14 and 16, 2021, we announced that we signed a Master Services Agreement with GDMS – Canada to support the development of digitization solutions for future Canadian land C4ISR programs. We estimate the contract's value to DEFSEC to be up to \$1.0 million over the next 12 months.

On December 15, 2021, we completed the non-cash acquisition of Police Ordnance Company Inc. – see *Item 4.A. – History and Development of the Company – Principal Capital Expenditures and Divestitures* for further details. On January 10, 2022, we announced that Police Ordnance Company Inc. received orders from law enforcement agencies for approximately \$0.4 million in ARWEN products, all have since been delivered as of the date of this Annual Report. However, as most of the shipments related to open customer orders at the acquisition date, these were not recorded as revenue during the quarter but rather as a reduction of intangible assets in accordance with IFRS.

At the 2022 SHOT Show® held in Las Vegas from January 18th to 21st 2022, we showcased our initial PARA SHOT™ single shot device. Since this event, we have continued to make further improvements to this device based on positive feedback from the SHOT Show®. As of the date of this Annual Report, we have finalized the design of the single shot device and are in the process of producing small quantities for market testing prior to commercial launch this summer. We are also in the process of optimizing the design of our multi-shot device for market testing in June 2022 and commercial launch soon after. Our initial sales focus will be law enforcement agencies. (see *Item 4.B. – Business Overview – Government Regulations*).

On February 11, 2022, we filed United States patent application No. 17/669,420 claiming priority to a provisional patent application serial 63/148,163 by the U.S. Patent and Trademark Office (“USPO”) for our PARA SHOT™ system.

On March 11, 2022, we closed a non-secured and non-convertible loan financing transaction with a syndicate of lenders for aggregate loan proceeds of \$1.8 million and an additional \$0.2 million on March 15, 2022, for a gross total of \$2.0 million (the “Unsecured Loans”). The Unsecured Loans bear interest at a rate of 9.0% per annum, compounded monthly and not in advance, and have a maturity of thirteen months, with DEFSEC having the option to repay the whole or any part of the Unsecured Loans, without penalty or premium, at any time prior to the close of business on the maturity date. The principal amount is due only at maturity. As part of the terms of the Unsecured Loans, we issued an aggregate of 68 bonus Common Shares to the lenders. These Common Shares were issued pursuant to prospectus exemptions of applicable Canadian securities laws and therefore subject to a four-month plus one day trading restriction.

On March 29, 2022, the Common Shares commenced trading on the Frankfurt Stock Exchange under the stock symbol “62U.” We believe this listing will provide us with the opportunity to further increase our investor base globally, improve our stock liquidity, and promote DEFSEC to the European financial markets.

We announced on April 4, 2022, with the war in Ukraine, that we are currently actioning a number of NATO and non-NATO country requests for quotations of our Phantom electronic decoy and laser detection products. While we are confident that this activity will generate sales orders before the end of Fiscal 2022, there is no assurance that we will be successful.

On April 22, 2022, we issued 4 Common Shares to the selling shareholders of Police Ordnance as a result of achieving the performance milestone as defined in the share purchase agreement.

On April 25, 2022, we announced that we engaged RedChip Companies (“RedChip”) to lead our investor relations efforts in the United States, in advance of our pending Nasdaq listing. Headquartered in Orlando, Florida, RedChip provides investor relations, financial media, and research for microcap and small-cap stocks.

On July 6, 2022, we won our first CIMS related contract and entered into a three-year contract with Counter-Crisis Technology Inc. to design, develop, and implement a significant component of a national GSAR Incident Command System for Public Safety Canada, with the Ontario Provincial Police (“OPP”) as technical advisory stakeholder for this project. The total contract value is approximately \$0.7 million, net of in-kind contributions of \$76,000, over three years of services commencing in late July 2022. Either party may, at any time and for any reason, terminate the contract for convenience upon at least 30 business days’ notice. In the event of termination for convenience, we may recover only the actual cost of work completed to the date of termination in approved units of work or percentage of completion.

On July 14, 2022, we closed a non-brokered private placement, resulting in the issuance of 109 units at a price of \$3,160.50 per unit, for aggregate gross proceeds of approximately \$0.34 million. Each unit consisted of one Common Share and 1,470 one-half Common Share

[Table of Contents](#)

purchase warrants, exercisable at a price of \$59.85 for each Common Share (14,700 warrants for 210 Common Shares) for a period of 24 months. Certain of our directors and officers participated in the amount of \$87,500.

On August 16, 2022, we announced that we publicly filed a registration statement on Form F-1 with the SEC relating to a proposed public offering in the United States of common units (the “U.S. IPO Common Units”), consisting of one Common Share and a U.S. IPO Warrant, and pre-funded units, consisting of a pre-funded warrant to purchase one Common Share and a warrant to purchase one Common Share (the “U.S. IPO”).

On August 29, 2022, we announced that we closed two non-secured loans in the amount of USD\$200,000 per loan with a third-party lender for an aggregate amount of USD\$400,000. The first non-secured loan of USD\$200,000 bears interest of 6% per annum and will mature on August 31, 2023. In connection with the first non-secured loan, we issued 423 bonus shares to the lender. The second non-secured loan of USD\$200,000 (the “Second Loan”) bears interest of 6% per annum and will mature on August 31, 2023. For both loans, the repayment will be 110% of its principal and both loans are senior to our other unsecured indebtedness. The Second Loan contains certain provisions allowing us to apply to the TSXV to repay the principal amount by issuing Common Shares in accordance with the rules and regulations of the TSXV.

On September 13, 2022, we announced the commencement of an underwritten public offering in Canada of units (the “Canadian Units”) consisting of one Common Share and one Common Share purchase warrant (the “Canadian Warrants”) for gross proceeds of approximately USD\$3 million (the “Canadian Offering”) following the filing of a preliminary short form base PREP prospectus with the securities regulatory authorities in each of the provinces of Canada, except Québec.

Fiscal 2023 Highlights

On October 28, 2022, in advance of the Nasdaq listing, we effected a one for seventy (1-for-70) reverse stock split of our Common Shares to meet Nasdaq’s initial listing requirements.

On November 2, 2022, we won our first customer order from an overseas NATO country for our BLDS product (see *Item 4.B. – Business Overview – Principal Products and Services*). These BLDS are for Special Forces who will be battle-testing the system in operational conditions. Subject to successful testing, we expect follow-on requirements, though there is no assurance there will be any follow-on orders.

On December 6, 2022, our Common Shares and the U.S. IPO Warrants were approved for trading on Nasdaq under the symbols “KWE” and “KWESW”, respectively, and commenced trading on December 7, 2022. The SEC declared our Form F-1 Registration Statement effective on December 6, 2022.

On December 9, 2022, we announced the closing of the U.S. IPO and Canadian Offering, for aggregate gross proceeds of USD\$14.1 million. In the U.S. IPO, we sold 11,904 U.S. IPO Common Units at a public offering price of USD\$867.30 per unit. Each U.S. IPO Common Unit consisted of one Common Share and 210 U.S. IPO Warrants. The U.S. IPO Warrants have an exercise price of USD\$1,050 per Common Share, were exercisable immediately, and expire five years from the date of issuance. The U.S. IPO Warrants are listed on Nasdaq under the symbol “KWESW”. 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 U.S. IPO Warrants. In the Canadian Offering, we sold 3,459 Canadian Units at a price to the public of USD\$867.30 per unit. The Canadian Warrants have a per Common Share exercise price of USD\$1,050, were exercisable immediately and expire five years from the date of issuance. The Canadian Warrants were listed on the TSXV under the symbol “KWE WT.U”.

On January 30, 2023, we announced the highlights of the 2023 SHOT SHOW where the Company’s new PARA SHOT™ products and its ARWEN® less-lethal launcher were showcased, in Las Vegas. The Company was invited to demonstrate and brief its ARWEN® 37mm launcher system to symposiums in 2023 to highlight the effectiveness of the ARWEN® platform for crowd control and for SWAT teams conducting high-risk arrests.

On February 14, 2023, we announced that the Company was showcasing its products at IDEX in Abu Dhabi, United Arab Emirates, and to exhibit and speak at Future Soldier 2023 Technology Conference in London, United Kingdom, as part of our international market development program.

[Table of Contents](#)

On February 27, 2023, we announced the key business pursuits arising from IDEX in Abu Dhabi, United Arab Emirates including: (i) a digitization project to provide first responders with shared, real-time situational awareness in critical incident response; (ii) a digitization project to feed video footage directly to shipborne and ground personnel from airborne platforms conducting maritime patrol operations in the Gulf; (iii) equipping police and security forces in the MENA region with the Company's new PARA SHOT™ less-lethal system through distributors the Company met with; and (iv) potential co-ventures with UAE defense technology agencies and financial partners, arranged through the Company's investment bankers, Think Equity, New York.

On March 1, 2023, we announced that Steven Archambault stepped down as Chief Financial Officer ("CFO") of the Company to pursue a new opportunity overseas.

On March 17, 2023, we announced the prospect of new European opportunities with military and major defense industry suppliers arising from our presentation at the *Future Soldier Technology* conference and its subsequent meetings in the United Kingdom.

On March 24, 2023, we announced that a G7 capital police force had adopted the Company's new Overwatch Commander system for critical incident management.

On April 3, 2023, we announced that David Luxton assumed the role of Interim CFO in addition to his role as Executive Chairman.

On April 27, 2023, the TSXV approved the listing of the Canadian Warrants issued in the Canadian Offering in December 2022, commencing trading on May 1, 2023.

On May 2, 2023, we announced that the Company received notice of a contract award under a joint venture with two other defence industry partners, to perform software systems engineering work for the Canadian Department of National Defence ("DND") for approximately \$20 million over a span of five years (the "Canadian Government Contract").

On May 29, 2023, we announced that at CANSEC 2023, that the Company planned to feature its capability to rapidly integrate and exploit digital information for the dismounted and mounted soldier to more than thirty visiting countries, including TAK integration, Tactical Digital Fires System and Command and Control On The Move, all vital aspects of soldier modernization for survivability.

On May 30, 2023, we announced the appointment of Sean Homuth as CFO and Chief Compliance Officer, effective June 12, 2023.

On July 19, 2023, we announced that we had entered into definitive agreements with a group of accredited and institutional investors for the issuance and sale of Common Shares (or Common Share equivalents) on a brokered private placement basis, for aggregate gross proceeds of approximately USD\$5.6 million (the "July 2023 Private Placement").

In connection with the July 2023 Private Placement, we entered into a placement agency agreement (the "July 2023 Placement Agency Agreement") with ThinkEquity LLC ("ThinkEquity") and a securities purchase agreement (the "July 2023 Securities Purchase Agreement") and a registration rights agreement (the "July 2023 Registration Rights Agreement") with the selling securityholders, all of whom were accredited or institutional accredited investors.

On July 21, 2023, we announced the closing of the offering and the issuance and sale of 11,775 Common Shares (or Common Share equivalents), for aggregate gross proceeds of USD\$5,588,397. As a part of the offering, the Company issued 7,343 Common Shares at a price of USD\$474.60 per Common Share and 930,548 pre-funded warrants at a price of USD\$2.259 per pre-funded warrant, with each Common Share and 210 pre-funded warrants being bundled with 210 Common Share purchase warrant of the Company. As compensation for services rendered, the Company paid to ThinkEquity a cash fee of \$475,013.14 representing 8.5% of the aggregate gross proceeds of the offering and issued 123,637 warrants to purchase 588 Common Shares.

On July 25, 2023, we announced that we had filed a U.S. patent application for the core module of our next-generation BLDS branded "BlADE", and that we will make the BlADE module available as a plug-and-play offering to third-party OEMs for incorporation into their new and legacy electro-optical systems on armored vehicles.

Fiscal 2024 Highlights

On October 18, 2023, we announced our “KWESST Lightning™” scalable situational awareness solution for Public Safety market agencies during a critical incident. KWESST Lightning™ will improve interoperability between agencies with lightning-fast time to engagement, offered as a fully cloud-based Software as a Service (“SaaS”) product. Built using the “TAK” – the U.S. government Team Awareness Kit (“TAK”) software at the foundation, the solution addresses the issues of scalability, interoperability, and time to engagement while customizing the user experience to meet the demands of the specific mission sets that responders encounter.

On October 24, 2023, we announced that we received Notice of Allowance for the Luxton LEC patent from USPTO and notification that the USPTO will issue the patent October 31, 2023.

On October 31, 2023, we announced that we intended to issue 222 Common Shares at a deemed price per Common Share of \$439 in settlement of a debt in an amount of approximately \$97,615.

On November 13, 2023, we announced plans to expand our ARWEN® business, including the introduction of a new 40mm cartridge for third-party riot control launchers, which constitute the bulk of launchers worldwide. In order to scale supply and deliver orders in a more responsive fashion we announced a planned reorganization of the business to satisfy the backlog of ARWEN® orders and drive sales growth. We also reported on the scale-up of PARA SHOT™ production on the heels of successful demonstrations to law enforcement agencies over the summer and fall of 2023.

On November 27, 2023, we announced that Sean Homuth was appointed as President and CEO.

On December 6, 2023, we announced the appointment of General (Retired) Rick Hillier to our Board.

On December 13, 2023, we announced that our less-lethal PARA SHOT™ and ARWEN® products will be available for law enforcement agencies to purchase on-line (with a link from DEFSEC website) on Monday, December 23, 2023. PARA SHOT™ has been in initial production through the fall of 2023. DEFSEC also introduced its new ARWEN® 40mm cartridge at the SHOT Show in response to substantial interest from many law enforcement agencies.

On February 2, 2024, we announced that Dave Ibbetson, former General Manager of General Dynamics C4 Systems International, and General Dynamics Mission Systems International has been engaged as a Strategic Defence Advisor.

On February 5, 2024, we announced highlights from our attendance at SHOT Show 2024. This included law enforcement agencies at the federal, state and local level, plus foreign distributors from Europe, Asia, Latin America and the Middle East, specifically seeking out the Company to view the new products. The Company has started receiving initial small quantity orders for test and evaluation of its 40mm baton ammunition as well as requests from various agencies for live demonstrations of the PARA SHOT™ products.

On February 12, 2024, we announced that we were invited to demonstrate and brief on our public safety products at an international gathering of special intervention units, which was held overseas in April 2024. We have also been demonstrating and briefing on our new PARA SHOT™ less-lethal system, our new 40mm ARWEN® cartridge for riot control and tactical teams and our new KWESST Lighting and new T-SAS Tactical Surveillance and Sniper system (“T-SAS™”) systems for sharing situational awareness among responders and commanders to various police agencies in North America.

On February 28, 2024, we announced the signing of a binding letter of intent with O’Dell Engineering Ltd., in Southwestern Ontario, Canada, for the sale and distribution of PARA SHOT™ products in Canada for the civilian market. Subsequently, on November 13, 2024, the Company effectively advised O’Dell that it would not be pursuing a definitive agreement. The Company has engaged the services of an external manufacturer for assembly of its ARWEN® ammunition and is currently discussing their potential (based on their interest) to become an outsourced manufacturer as well as global distributor of the PARA SHOT™ products.

On March 8, 2024, we announced that we had been awarded a contract by the OPP to deliver training and certification to the force’s lead TAK users and trainers.

[Table of Contents](#)

On March 12, 2024, we reported on our demonstrations of PARA SHOT™ to Southern California law enforcement agencies at their request following demonstrations at SHOT Show 2024 in Las Vegas in January.

On April 3, 2024, we announced an offering of Common Shares (and/or pre-funded warrants in lieu thereof) in an underwritten United States public offering.

On April 4, 2024, we announced the pricing of our underwritten public offering of 7,326 Common Shares (or pre-funded warrants in lieu thereof) at a public offering price of US\$136.50 per Common Share, for gross proceeds of approximately US\$1,000,000, before deducting underwriting discounts, commissions and offering expenses.

On April 9, 2024, we announced the closing of our previously announced underwritten public offering of 3,500 Common Shares and 803,500 pre-funded warrants with an exercise price of \$0.21 per Common Share at a public offering price of \$184.80 (US\$136.50) per share and \$0.881 (US\$0.649) per pre-funded warrant, less the underwriting discount.

On April 30, 2024, we provided a corporate update ahead of our fiscal Q2 results, highlighting the status of our military digitization contracts through 2028, an MOU signed with the University of Ottawa to hire software coding graduates, work with a large Canadian police agency as first adopter of KWESST Lightning™ (now called “DEFSEC Lightning™”) in advance of full market release, ARWEN® scaling to multiples of historical revenue and, major agencies continuing evaluations of PARA SHOT™.

On May 17, 2024, we announced that we had been awarded a contract with our teaming partner CounterCrisis Tech (“CCT”) for a proof of concept project to provide a situational awareness app in support of Canadian Red Cross (“CRC”) emergency and disaster relief operations.

On May 20, 2024, we announced that we received written notification from Nasdaq on May 16, 2024, indicating that the Company is not in compliance with the minimum bid price requirement set forth in the Nasdaq rules for continued listing on Nasdaq, which requires listed securities to maintain a minimum bid price of US\$1.00 per share.

On May 23, 2024, we announced the appointment of MNP LLP (“MNP”) as our new, successor auditor until the close of the next annual general meeting.

On June 10, 2024, we reported that we had been awarded a sub-contract by Thales Canada (The “Thales Subcontract”). Under the sub-contract, DEFSEC will deliver specialized software services for work under the Canadian DND Land C4ISR series of contracts to modernize the Canadian Army’s capabilities through advanced Land C4ISR systems.

On June 12, 2024, we announced an offering of Common Shares (and/or pre-funded warrants in lieu thereof) in a best efforts United States public offering.

On June 12, 2024, we announced the pricing of our best efforts public offering of 13,810 Common Shares at a public offering price of US\$121.80 per share, for gross proceeds of approximately US\$1,682,000, before deducting placement agent fees and offering expenses. All of the Common Shares were offered by the Company.

On June 14, 2024, we announced the closing of our previously announced public offering of 13,809 Common Shares at a public offering price of US\$121.80 per Common Share, less the placement agent fees. The gross proceeds from the offering, before deducting placement agent fees of \$9.135 per Common Share (being an aggregate of US\$126,150 or 7.5% of the public offering price of the securities) and estimated offering expenses payable by the Company, were approximately US\$1,682,000.

On August 7, 2024, the Company announced that a G7 capital city police service (the “Agency”) has taken delivery of three T-SAS™ systems and in conjunction has entered into an agreement (at the close of business on August 6) with the Company for a limited time free trial of KWESST Lightning™. The trial has been initially rolled out to a team within the Tactical unit of the Agency to stress-test the equipment and services to provide valuable user feedback that will shape the full commercial version once released, and as part of the trial, DEFSEC will provide training and support to obtain maximum user engagement. During the three-month trial period, the Agency will have access to the full capability of command, communication, and critical-incident management through the KWESST Lightning™ interface on all Android-based devices and leverage peer-to-peer and cloud-based secure networked tactical video streams across DEFSEC’s secure SaaS cloud service.

[Table of Contents](#)

On August 12, 2024, the Company announced that it had entered into definitive agreements for the purchase and sale of 22,452 Common Shares at a purchase price of US\$42.00 per Common Share in a registered direct offering. The gross proceeds to the Company from the offering were approximately US\$943,000 before deducting placement agent fees and other offering expenses payable by the Company. In a concurrent private placement, the Company issued unregistered warrants to purchase up to 22,452 Common Shares at an exercise price of US\$52.50 per Common Share that were immediately exercisable upon issuance and will expire five years following the date of issuance. The registered direct offering closed on August 13, 2024.

On August 27, 2024, we announced the results of our 2024 Annual and Special Meeting of shareholders held on Monday, August 26, 2024, which included electing all the nominees to the Board, appointing MNP as auditor of the Company for the ensuing year, authorizing the Board to determine auditor's compensation, and approving the Company's amended long-term incentive plan ("LTIP"). We also announced the addition of new directors Sean Homuth and Jennifer Welsh, and the departure of outgoing director John McCoach.

On September 27, 2024, the Company announced the postponement of the special meeting of DEFSEC shareholders in connection with the proposed consolidation of the Company's share capital.

Fiscal 2025 Highlights

On October 1, 2024, we updated investors on the ramp-up of activity on our sub-contract to Thales Canada in support of the Canadian DND Land C4ISR series of contracts to modernize the Canadian Army's capabilities through advanced Land C4ISR systems program. DEFSEC was in various stages of completing its staffing with conditional offers accepted for all 16 positions on the program, representing an annualized revenue of approximately \$3.3 million. The Company expects to continue to increase staffing, and related revenue, as future taskings are received. The Company's maximum potential workshare under the Land C4ISR and DSEF remains approximately CAD\$48 million and \$27 million for the initial contract periods of six and five years respectively.

On October 10, 2024, we announced our plan to proceed with a consolidation of our outstanding Common Shares on the basis of ten (10) pre-consolidation shares for each one (1) post-consolidation share. The Company believed that the consolidation was in the best interests of shareholders as it allowed the Company to ensure continued compliance with the Nasdaq minimum bid price requirements.

On October 21, 2024, we announced that, further to the Company's press release on October 10, 2024, the Company has received approval of the TSXV for the consolidation of the Company's issued and outstanding Common Shares on the basis of ten (10) pre-consolidation shares for each one (1) post-consolidation share.

On October 23, 2024, we announced that our wholly-owned subsidiary, KWESST Inc., had entered into a receivables factoring agreement with a US-based global financing company. The facility provides up to CAD\$250,000 advanced at a rate of 2.5% for the first thirty days and 1% for each ten days thereafter until receipt of funds from the receivable payee and is limited to a total of 20% of the value of the receivable funded. Funds are advanced at 80% up front of the face value of the receivable with a 20% fee deposit retained by the financing company until the amount funded is fully repaid, following which any balance remaining of the 20% fee deposit is returned to KWESST Inc. The agreement grants security against KWESST Inc.'s receivables and other assets for funds advanced by the financing company. The initial term is for 12 months and may be terminated within such term by KWESST Inc., subject to the payment of an early termination fee of 3% of the total limit of the facility. In September 2025 this facility was not renewed by management and released.

On October 23, 2024, we announced we had completed our plan to ramp up volume production of ARWEN[®] cartridges, including the new 40mm baton round following successful characterization testing by a recognized ballistics laboratory. The ARWEN[®] system is long-established in the law enforcement community and was designed as an alternative to lethal force for maintaining public order in the event of riots and civil unrest during protests and demonstrations. Historically, the Company has offered a 37mm cartridge that fires from its ARWEN[®] launchers. In a move to expand the market for ARWEN[®] branded products and to leverage the large installed base of third-party 40mm firing platforms, DEFSEC announced and showcased a new 40mm baton cartridge at the annual SHOT Show in January 2024. Live fire demonstrations at the SHOT Show Range Day and other events since then have demonstrated the effective performance of the new 40mm baton cartridge.

[Table of Contents](#)

On November 1, 2024, we announced the closing of a public offering of 3,809,000 pre-funded warrants at a public offering price of \$1.25 (US\$0.90) per pre-funded warrant. The gross proceeds from the offering were approximately \$4.9 million (US\$3.5 million), before deducting placement agent fees of \$0.094 (US\$0.0675) per pre-funded warrant (being an aggregate of \$365,726 (US\$262,508) or 7.5% of the public offering price of the securities) and offering expenses were \$2,035,243, inclusive of broker compensation warrants. In addition, the Company issued to the placement agent as compensation for its services 194,450 Common Share purchase warrants with an exercise price of \$32.91 (US\$23.625) per share.

On November 11, 2024, we announced that we intended to issue a total of 5,669 Common Shares at a deemed price per Common Share of \$17.64 per share, representing a 20% discount on the closing price of the Shares on the TSXV for settlement of business expenses incurred while representing the Company in an aggregate amount of CAD\$100,000 owed to a company controlled by Mr. David Luxton, Chairman of the Company.

On November 12, 2024, we announced the closing of a brokered private placement offering to an institutional accredited investor for aggregate gross proceeds of approximately \$3.4 million (the “**November 2024 Offering**”). As a part of the November 2024 Offering, the Company issued 4,145,200 pre-funded warrants to acquire a number of Common Shares at a price of \$0.824 per pre-funded warrant, inclusive of the exercise price of \$0.021 per Common Share. Each pre-funded warrant was bundled with one Common Share purchase warrant of the Company. We also announced that the Company amended the terms of the outstanding pre-funded warrants issued on November 1, 2024, as part of the Company’s best efforts public offering in the United States. The amendments revised the exercise price of the pre-funded warrant from USD\$0.021 to CAD\$0.0294 per Common Share, revised currency references from USD to CAD, and removed the ability for the holder to exercise the pre-funded warrant on a cashless basis. The foregoing amendments were agreed to by the holder of such pre-funded warrants pursuant to a pre-funded warrant amendment agreement.

On November 13, 2024, we announced that we received a letter from Nasdaq, notifying the Company that it is eligible for an additional 180 calendar day period, or until May 12, 2025, to regain compliance with the Minimum Bid Requirement. The Company was first notified by Nasdaq of its failure to maintain the Minimum Bid Requirement on May 16, 2024 and was given until November 12, 2024 to regain compliance. The Company did not regain compliance with the Minimum Bid Requirement during the first 180 calendar day period.

On November 13, 2024, in accordance with Nasdaq Listing Rule 5810(c)(3)(A), the Company was provided with an additional and final 180 calendar day period, or until May 12, 2025, to regain compliance with the Minimum Bid Requirement. To regain compliance, the closing bid price of our Common Shares must meet or exceed US\$1.00 per share for a minimum of ten consecutive business days at any time prior to the Compliance Date, unless the Nasdaq staff exercises its discretion to extend this ten-day period pursuant to Nasdaq Listing Rule 5810(c)(3)(H). The Company regained compliance on May 8, 2025, after receiving the Notification Letter (see below for further details).

In December 2024, the LEC royalty payment (see Contractual Obligations and Commitments below) that was due April 2025, in the amount of \$200,000 was paid early to DEFSEC Corp. in exchange for a \$25,000 reduction, resulting in a net payment of \$175,000.

On January 6, 2025, the Company announced the appointment of Mrs. Jennifer Welsh as CFO and Chief Compliance Officer of the Company, replacing Mr. Kris Denis, who transitioned to a new role within the DEFSEC finance team, reporting to Mrs. Welsh. The Company also announced the appointment of Mr. James Yersh as a director of the Company and Chair of the Audit Committee.

[Table of Contents](#)

On February 21, 2025, the Company announced the closing of a first tranche of the issuance and sale of a private placement of its securities to accredited and institutional investors for aggregate gross proceeds of approximately CAD\$3.5 million (approximately US\$2.5 million) (the “First Tranche”). As a part of the First Tranche, the Company issued 43,033 Common Shares and 2,884,179 pre-funded warrants in lieu thereof, no par value per share, at a price of CAD\$19.488 (approximately US\$13.86) per Common Share and \$0.928 (US\$0.66) per pre-funded warrant, inclusive of the exercise price of CAD\$0.021 per Common Share. Each Common Share, was bundled with 21 Common Share purchase warrants of the Company and each pre-funded warrant was bundled with one Common Share purchase warrant. 21 Common Share purchase warrant entitles the holder to acquire one Common Share at an exercise price of CAD\$24.36 (approximately US\$17.157) per Common Share for a period of 60 months following the closing of the First Tranche, the warrants are immediately exercisable. As compensation for services rendered in the First Tranche, the Company paid to ThinkEquity a cash fee of CAD\$263,636 which represents 7.5% of the aggregate gross proceeds of the First Tranche and issued to ThinkEquity or its designees 189,394 warrants to purchase an equivalent number of Common Shares which represents 5.0% of the Common Shares and pre-funded warrants sold in the First Tranche. The placement agent warrants were immediately exercisable and entitle the holder to acquire one Common Share at an exercise price of CAD\$24.36 (approximately US\$17.157) per Common Share for a period of 60 months following the closing of the First Tranche. Due to investor interest, the Company increased the size of the offering with a second tranche of a confirmed order totaling approximately CAD\$140,606 (approximately US\$100,000) (the “Second Tranche,” and together with the First Tranche, the “February 2025 Offering”). In connection with the February 2025 Offering, the Company entered into placement agency agreements (the “February 2025 Placement Agency Agreements”) with ThinkEquity and securities purchase agreements (the “February 2025 Securities Purchase Agreements”) and registration rights agreements (the “February 2025 Registration Rights Agreements”) with the selling securityholders thereto.

On March 18, 2025, the Company announced that it has filed notice of a meeting of shareholders, a management information circular, and related documents to convene a special meeting of shareholders on March 31, 2025. The Meeting has been convened to seek shareholder approval of a resolution, authorizing, if deemed advisable by Board, the consolidation of the issued and outstanding Common Shares of the Company on the basis of one share for a maximum of every twenty-five (1-for-25) Common Shares issued and outstanding.

On March 28, 2025, the Company announced a strategic partnership with a contract manufacturer in the United States to bring elements of its production stateside under the signing of a non-binding memorandum of understanding dated March 27, 2025. The parties agreed to work towards a manufacturing agreement outlining the terms of a long-term contract manufacturing arrangement. We continue to work with the contract manufacturer on production of the 40mm ARWEN and PARA SHOT™ cartridges and plan to execute an agreement in early calendar year 2026.

On April 1, 2025, the Company announced the results of its special meeting of shareholders. The consolidation resolution was approved by a majority of the votes cast by the holders of Common Shares of the Company, either present in person or represented by proxy.

On April 21, 2025, the Company announced that it will effect the 2025 Reverse Split. The 2025 Reverse Split was effective at 12:01 a.m. Eastern Daylight Time April 23, 2025, on the Nasdaq and was effective at 12:01 a.m. Eastern Daylight Time on April 24, 2025, on the TSXV. While the Common Shares were expected to begin trading on the Nasdaq market on a consolidated basis on or around April 23, 2025, due to the discrepancy in the effective date of the consolidation on both markets, trading in the securities of the Company was halted on April 23, 2025 and resumed trading on a consolidated basis on the Nasdaq and the TSXV at market open on April 24, 2025.

On May 8, 2025, the Company announced that it received the Notification Letter notifying the Company that it has regained compliance with the minimum bid price requirement set forth under Nasdaq Listing Rule 5550(a)(2). The Notification Letter confirmed that the Company evidenced a closing bid price at or greater than the USD\$1.00 per Common Share minimum requirement for 10 consecutive business days from April 24, 2025, to May 7, 2025. As a result, the listing matter was closed.

On June 18, 2025, the Company announced receipt of a first order from a defence systems integrator for prototypes of its newest generation of BLDS for a major North American armored vehicle program.

On June 25, 2025, the Company announced that it intends to change its name to “DEFSEC Technologies Inc.” at the opening of its expanded new facility at 80 Hines Road in Kanata North, Ottawa, Ontario.

[Table of Contents](#)

On August 7, 2025, the Company announced the closing of a public offering of 759,879 Common Shares (or Pre-funded Warrants in lieu thereof, together with Common Share purchase warrants to purchase up to 759,879 Common Shares at a combined public offering price of CAD\$8.955 per share (or Pre-funded Warrant in lieu thereof) and accompanying Common Share purchase warrant, for gross proceeds of approximately CAD\$6.8 million before deducting placement agent fees and other offering expenses payable by the Company (the “August 2025 Offering”). The Common Share purchase warrants have an exercise price of CAD\$10.52 per share, are exercisable upon issuance and will expire five years following the date of issuance. H.C. Wainwright & Co. acted as the exclusive placement agent for the offering. The securities were offered pursuant to a registration statement on Form F-1 (File No. 333-288827), which was declared effective by the SEC on July 23, 2025.

Year-to-Date Fiscal 2026 Highlights

On October 29, 2025, the Company announced it was attending and presenting at The ThinkEquity Conference in New York City on Thursday October 30, 2025. The Company also announced that program billings on an annualized go-forward basis from its government services business would represent approximately CAD\$5.1M¹, a 394% increase from actual Fiscal 2024 billings of CAD\$1.0M², with margins consistent to those presented in the Q3 2025 financial statements.

On December 5, 2025, the Company announced a significant increase in its government services business, with program billings on an annualized go-forward basis expected to rise to approximately CAD\$8.3³ million starting February 2026 with an expected increase to annualized gross margins on a go-forward basis to approximately CAD\$2.3M⁴. This growth is driven by an expansion of work scope with the DSEF for the digital modernization of the Canadian Armed Forces. The Company plans to add 15 roles to its team, subcontracting 13 of these from ADGA Group Consultants Inc. This collaboration is expected to enhance DEFSEC’s revenue and margins, positioning the Company for further growth as the Canadian government increases defence spending.

On December 17, 2025, the Company entered into definitive securities purchase agreements for the purchase and sale of 566,040 Common Shares at a purchase price of CAD\$3.64 (US\$2.65) per Common Share in a registered direct offering (the “December 2025 Securities Purchase Agreements”). In a concurrent private placement, we issued unregistered warrants to purchase up to 566,040 Common Shares at an exercise price of CAD\$4.27 per share that will be immediately exercisable upon issuance and will expire five years following the date of issuance. The closing of the offering occurred on December 18, 2025.

Non-IFRS Measures

In addition to its results presented in accordance with IFRS, DEFSEC presents certain “non-IFRS” financial measures on a supplemental basis. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management’s perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS.

1 Unaudited, non-IFRS measure. See Item 4. A – Events in the Development of the Business – Non-IFRS Measures.

2 See Consolidated Financial Statements of DEFSEC Technologies Inc. for the years ended September 30, 2025, 2024 and 2023 filed on the Company’s SEDAR+ profile at <https://sedarplus.ca/>

3 Unaudited, non-IFRS measure. See Item 5. A – Operating Results – Non-IFRS Measures.

4 Unaudited, non-IFRS measure. See Item 5. A – Operating Results – Non-IFRS Measures.

The non-IFRS measure used herein include current billings on annualized go-forward basis, which is an unaudited, non-IFRS measure. This measure reflects management's estimate of annualized revenues based on current contractual taskings as of the date of announcement. This non-IFRS financial measure reflects an additional way of viewing aspects of the Company's operations that, when viewed with IFRS results and the reconciliations to the corresponding IFRS financial measure, may provide a more complete understanding of factors and trends affecting the Company's business. The most directly comparable financial measure that is disclosed in the financial statements of the Company to which the non-IFRS measure relates is revenue. Because non-IFRS financial measures exclude the effect of items that will increase or decrease the Company's reported results of operations, management strongly encourages investors to review the Company's consolidated financial statements and publicly filed reports in their entirety under the Company's SEDAR+ profile at <https://sedarplus.ca/> and EDGAR profile at www.sec.gov/search-filings.

Principal Capital Expenditures and Divestitures

We made the following capital expenditures over the last three financial years. All share-related information presented in this section gives effect to the Reverse Splits.

Fiscal 2025:

- There were no significant capital expenditures or divestitures in Fiscal 2025.

Fiscal 2024:

- There were no significant capital expenditures or divestitures in Fiscal 2024.

Fiscal 2023:

- There were no significant capital expenditures or divestitures in our fiscal year ending September 30, 2023 ("Fiscal 2023").

B. Business Overview

Principal Products and Services

DEFSEC Technologies Inc., formerly known as KWESST Micro Systems Inc., is an early-stage technology company that develops and commercializes next-generation tactical systems for military and security forces and public safety markets.

Our product development has focused on three niche market segments as follows:



Our core mission is to protect and save lives. We group our offerings for commercialization purposes into Military and Public Safety missions.

DEFSEC's Public Safety offerings are comprised of:

- DEFSEC Lightning™: leverages the Company's military digitization technology experience to provide responders to any type of incident with instant onboarding to the mission and TAK-enabled real-time situational awareness SaaS. This cloud-based platform includes TAK, as well as proprietary plug-in tools relevant to law enforcement, including ground search and rescue tools, TAK enabled sniper and surveillance tools. The Company is currently pursuing trials and pilots of the product as it continues development towards the full commercial release that is currently expected in early Fiscal 2026. We continue to demonstrate with potential law enforcement customers that are interested in the platform who could potentially subscribe ahead of the full release. Two such agencies remain in their internal business casing process which is expected to continue until early calendar 2026.
- Less-Lethal Munitions Systems:
 - PARA SHOT™, a next-generation less-lethal system.
 - ARWEN® 37mm system, plus a new 40mm munition and new marking cartridges in 37mm and 40mm for realistic scenario training leveraging the PARA SHOT™ Low Energy Cartridge ("LEC") technology.

DEFSEC's Military offerings are comprised of:

- Digitization: task order based software solutions.
- TASCS IFM and NORS;
- T-SAS™;
- Lightning SaaS;
- BLDS; and
- Phantom Electronic Warfare device. Development and patent applications have been paused as we determine the best method to bring this product to market.

Strategy

Our strategy is to pursue and win large task-order based software development and digitization defense contracts for multi-year revenue visibility with prime defense contractors, with a particular focus on ATAK applications that can be leveraged to address similar requirements in the Public Safety Market complemented by our proprietary ARWEN® and PARA SHOT™ less-lethal products, where it is possible to drive sales and where the sales cycle is typically shorter than the more programmatic defence market.

Principal Products and Services

The following is a summary of our main product and service categories for each business line:

Less-Lethal	Digitization	Counter-Threat
PARA SHOT™ products: <i>Non-reciprocating devices:</i> <ul style="list-style-type: none"> • A single-shot device • A five-shot device • 12-gauge shotgun (planning stage; not yet industrialized) <i>Reciprocating devices</i> <i>(Planning stage, not yet commercially available)</i> <ul style="list-style-type: none"> • Replica pistol • AR style rifle <i>Cartridge</i> <ul style="list-style-type: none"> • Blunt / training • Inert marking powder • Irritant powder ARWEN® products: <ul style="list-style-type: none"> • Single shot 37mm launcher • Multi-round 37mm launcher • Baton blunt impact • 37mm, and 40mm <i>(final stages of commercialization)</i> • 37mm Chemical, irritant, and barricade-penetrating rounds • PARA SHOT™ training adapter for ARWEN Platform (final stages of commercialization) 	Products: <ul style="list-style-type: none"> • TASCs IFM • TASCs Networked Observation and Reconnaissance System (“TASCs NORS”) • New T-SAS™ system Services: <ul style="list-style-type: none"> • ATAK Centre of Excellence • Lightning SaaS for CIMS (not yet commercially available) • Task-order based software services on long-term government defence contracts 	Products: <ul style="list-style-type: none"> • BLDS • Phantom Electronic Warfare device

Less-Lethal Products

Non-reciprocating PARA SHOT™ devices

We are in the low-rate initial production (“LRIP”) phase for the .67 caliber single shot devices and cartridges. We expect to complete our sales, marketing and distribution plan and will begin the higher volume production phase for these products during Fiscal 2026. Both will be offered first to the professional user market where demonstrations and evaluations are underway. We also intend to offer these devices and cartridges to the personal safety market in accordance with applicable rules and regulations. In the United States this entails classification with the ATF. If the launchers are classified as a firearm, it is possible that a reduction in the caliber may be required in order to obtain the appropriate classification (as not a “destructive device” i.e. under .50 caliber) to reduce the barriers to sell to the personal safety market. This would entail moderate investment in tooling to resize the launchers and cartridges accordingly. The Company has already completed prototypes in .49 caliber should they be required. Submissions for a ruling on the classification are ongoing to the ATF.



Single Shot

(PARA SHOT™ Micro)



***Proprietary cartridge
and projectile***



Five shot Pro

(PARA SHOT™ Mini)

We plan to offer three types of payload for projectiles based on customer needs:

- solid slug for practice or pain compliance;
- inert colored powder for practice or realistic close quarters combat simulation; and
- incapacitating irritant pepper powder for operational use.

Reciprocating PARA SHOT™ devices

We have a plan to prototype PARA SHOT™ as a high-capacity automatic pistol and carbine (referred to as reciprocating devices) for less-lethal operations and force-on-force training, along with a reciprocating PARA SHOT™ cartridge in Fiscal 2026. This timing may extend out further to prioritize the roll-out of PARA SHOT™ for the personal safety market.

See below for further details of our projected product development cycle and estimated additional investment to reach full commercialization for our PARA SHOT™ devices.

ARWEN® launchers

As a result of the Police Ordnance Acquisition, we are currently selling the following ARWEN® products and related ammunition to law enforcement agencies:



ARWEN 37 MK III
Multi-shot launcher



ARWEN ACE
Single shot launcher

Digitization

For the Digitization business line, our products share the same core technology platforms and leverage our domain knowledge, proprietary sensor-software integration, proprietary algorithms and electronic circuitry in order to develop and deliver integrated shared situational awareness solutions to our clients who operate in the primarily dismounted domain (*i.e.*, away from supporting platforms such as vehicles, aircraft and armored vehicles):

- ATAK is a United States government owned situational awareness software application that is hosted on Android end user devices. Based on our observation, ATAK is becoming the de facto standard in the United States, Canada, and North Atlantic Treaty Organization (“NATO”) for software based situational awareness and as a command and control battle management application in the dismounted domain. While the base software is United States Government owned and is available at no cost, being able to develop specific plug-ins and secure tactical networks is beyond the capacity of most user organizations. We have the experience and expertise to offer ATAK integration and networking services to prospective clients.
- After successfully developing digital technologies for tactical military applications which provide real-time exchange of situational awareness, navigation, imagery, and operational information for soldiers on the ground, we saw opportunities to apply these digitization solutions to the public safety market. These solutions solve critical challenges for law enforcement, fire, emergency response, search and rescue, and natural disaster management, all of whom require networked situational awareness in real time to understand, decide, and act faster and more effectively in response to a critical incident. When responders are facing a public emergency, they need information quickly. Whether it is a wildfire, active shooter scenario or a natural disaster, they need to know what they’re walking into and where their resources are located. They also need to communicate and collaborate in real-time — across teams and information sources and often across departments.
- Based on experience gained from our work in the civilian public safety market with our CIMS concept for enhanced public safety, DEFSEC is working to bring its DEFSEC Lightning™ SaaS platform announced in October 2023 to full market release in early 2026. DEFSEC is currently working to contract with early adopters from a major Canadian police agency to refine the product as part of a pre-market release early adoption phase.
- DSEF and Land C4ISR are a series of task-order based long-term contracts to modernize the Canadian Army’s capabilities through the advanced land command systems program management software engineering facility and the advanced land command, control, communications, computers, intelligence, surveillance and reconnaissance systems program. The Company expects to continue to increase staffing, and related revenue, as future taskings are received.

[Table of Contents](#)

The following is a summary of our main Digitization products that are being commercialized through Fiscal 2026, subject to customer orders.



DEFSEC Lightning

- Comprehensive Critical Incident Management System architecture and Solution for Public Safety markets:
- Native Cloud-based Microsoft environment (MS Azure) with Team Awareness Kit (TAK)
- Seamless INTEGRATION and FUSION of crucial real-time position location, imagery, and targeted time-sensitive emergency services data and information for hte effective and coordinated delivery of emergency services.
- Opt-in geo-fencing to ensure privacy for all users.
- Supporting stakeholders from Emergency Operations Centers (EOC), Incident Command Post (ICP), Incident Commanders, and all first responders whether mobile or dismounted.

Counter Threats

We offer the following proprietary next-generation counter-threat solution to protect against hostile enemy lasers, electronic detection, and drones.



Battlefield Laser Defense System

- BLDS is a unique, proprietary system that detects and can locate lasers and alert ground personnel with DEFSEC's networked Digitization applications.
- We have systems that support both a vehicle-mounted and personnel-worn applications.



Phantom

- Our Phantom is a compact portable multi-function device that includes the ability to emulate the electronic communications of any NATO country in order to spoof adversaries as to the location of NATO forces.
- Our Phantom is a patented version of much larger vehicle-mounted Electronic Warfare systems. Its small size means it can be deployed at the tactical level by ground personnel or by drones or mounted on light tactical vehicles.
- In order to optimize the Company's R&D spending, management has put the Phantom project on hold and has suspended further development until there is a stronger customer demand.

[Table of Contents](#)

The following table provides an update of our current product development cycle by product line and estimated timeline by quarter (fiscal year ended September 30th) to reach production:

	Concept & Design	Prototype ⁽¹⁾	Market Testing ⁽²⁾	LRIP Production ⁽³⁾	Higher Volume Production ⁽⁴⁾
PARA SHOT™ – single shot device ⁽⁵⁾	Completed	Completed	Q3 FY23 – Ongoing	Ongoing	Q1-Q2 FY26
PARA SHOT™ – Pro 5 Magnum ⁽⁵⁾	Completed	Completed	Q3 FY23 – Ongoing	Q2-Q3 FY 2026	FY26
PARA SHOT™ – reciprocating devices	Q4 FY26	Q4 FY26	Q4 FY26	Q1 FY 2027	Q4 FY27
BLDS	Completed	Ongoing	Ongoing	Ongoing	TBD per market demand
ARWEN® 37mm Ammunition	Completed	Completed	Completed	Completed	Completed
ARWEN® 40mm Ammunition plus training cartridge	Completed	Completed	Ongoing	Ongoing	Q2 FY26
ARWEN® 40mm, 37mm training cartridge	Completed	Completed	Ongoing	Q4 FY26	FY26
DEFSEC Lightning™	Ongoing	Ongoing	Q1 FY26	Q1 FY26	FY26

Notes:

- (1) Prototype Version 1 (V1) and Version 2 (V2), integration, and testing have been completed. Next Generation BLDS prototyping is ongoing with units available for qualification and customer trials.
- (2) Includes field testing, prototype V2, and Next Generation (SPOC8) BLDS Prototype.
- (3) “Low-Rate Initial Production”. Includes final product development, LRIP, and sales demonstration units. A product is not ready for pre-production until it reaches Technology Readiness Level (TRL) of 5 to 6. Version 2 has been delivered to the customer for integration under this phase, SPOC 4 prototypes have been delivered to a North American customer for range-trials, Next Generation (SPOC8) prototypes have been integrated and are undergoing testing and demonstration at DEFSEC.
- (4) Awaiting customer validation and follow-on orders.
- (5) Includes the cartridges for the devices. Higher volume production anticipated timelines could be longer if modifications are required as a result of the ATF confirmation of classification as a firearm to reduce barriers to sales to the civilian personal safety market.

We consider a product to have reached the commercialization phase when we have begun LRIP and we have a sales, marketing, and distribution plan for the product.

Principal Markets

Our total revenues by category of activity and geographic market for each of the last three financial years were as follows:

	Year ended September 30, 2025	Year ended September 30, 2024	Year ended September 30, 2023
Major products/service lines			
Digitization	\$ 4,018,625	\$ 1,034,257	\$ 819,604
Less-Lethal	914,150	465,082	411,758
Training and services	8,700	1,028	—
Other	1,151	3,961	3,088
	\$ 4,942,626	\$ 1,504,328	\$ 1,234,450
Primary geographic market			
United States	\$ 364,362	\$ 155,103	\$ 42,780
Canada	4,578,264	1,349,225	743,200
Europe	—	—	448,470
	\$ 4,942,626	\$ 1,504,328	\$ 1,234,450
Timing of revenue recognition			
Products and services transferred over time	4,027,325	1,035,285	\$ 819,604
Products transferred at a point in time	915,301	469,043	414,846
	\$ 4,942,626	\$ 1,504,328	\$ 1,234,450

Market Opportunities

Less-Lethal

According to Fact.MR: *Less-Lethal Weapons Market*, April 2023, the global less-lethal weapons market was approximately USD\$4.95 billion in 2023 and is projected to reach USD\$7.6 billion in 2028 (a 4.3% compound annual growth rate). We plan to target the following two markets, with an initial focus in the United States:

- Professional market:

Our main focus in the short-term is the professional market in the United States and overseas as these represent a major opportunity for our less-lethal security products. According to the U.S. Bureau of Labor Statistics, in the United States there are nearly 796,800 police officers, detectives and criminal investigators. Cases involving police shootings and deaths related to the use of conductive energy devices and less-lethal shotgun ammunition have increased in the United States. According to The Washington Post, there have been over 10,429 fatal police shootings in the United States since 2015 through to December 2024 involving police.

A Reuters report estimates that at least 1,000 people have died as a result of being stunned by conductive energy devices in the United States. In over 150 of those deaths, the conductive energy device was determined to be a cause or a contributing factor.

There are several other security-related occupations which we believe are potential customers for our less-lethal products. These include 1.2 million security guards, 387,500 corrections officers and 38,800 private detectives, according to the U.S. Bureau of Labor Statistics. We believe that our PARA SHOT™ products could play a meaningful role in addressing the tragic increase in school shooting events. According to the Naval Postgraduate School's Center for Homeland Defense and Security, there have been approximately 460 shooting events in K-12 schools during the last five years. We believe our less-lethal security products offer school personnel important options to create a tactical advantage in school shootings without using lethal firearms.

According to the U.S. Department of Education, there are over 132,000 elementary and secondary schools and nearly 6,000 colleges and universities in the United States. We believe there is an opportunity to utilize our products to enhance school safety.

Other public spaces such as grocery stores, houses of worship, bars and nightclubs, concert venues, sporting arenas and public transportation centers are also confronted with increased security challenges. Each of these locations represents an opportunity for us as they could improve security without introducing lethal firearms into crowded civilian environments by equipping their employees and security personnel with our less-lethal products.

Other market opportunities that we intend to further explore include the international professional market, realistic force-on-force training for military and police, realistic high-action gaming and animal control, both in the United States and internationally.

The principal market for the ARWEN® product line of less-lethal systems is law enforcement, primarily in Canada and United States.

- Consumer market:

According to Pew Research Center, nearly a third of U.S. adults say they personally own a gun based on 2023 survey data. We believe our PARA SHOT™ devices will offer gun owners and members of their households a safer, personal defense option, without the risk of loss of human life.

In addition to personal defense, we believe we have an opportunity to disrupt the recreational market – specifically for paintball guns, which are air-based devices rather than cartridge-based (see *Item 4.B. - Business Overview – Competitive Conditions*). According to market research by FactMR, published by Yahoo Finance, the paintball gun market size in the United States was \$127.21 million in 2023 and projected to be \$403.5 million by 2033.

Digitization

The principal market for our digitization business lines is primarily among military and public safety agencies in countries that are members of NATO, as well as Australia and New Zealand. As the largest purchaser and user of military and public safety products, the United States is our primary focus, followed by the other NATO member countries, and to a lesser extent, the Middle East and Asia.

In addition to increased military spending in the United States and other members of NATO, another important trend that we have observed is an increase in funding within the military for projects related to precision munitions for weapons already in use by the military (legacy weapons) to further enhance survivability of soldiers and their operational effectiveness. Our TASCs Integrated Fires Module (IFM) products are expected to benefit from these trends by transforming “dumb” legacy weapons into “smart” weapons (with better accuracy) and integration into military “Joint Fires” systems.

For our CIMS offering, our principal market is public safety agencies, primarily in Canada and United States. Public safety agencies across the United States are seeking to implement digital solutions that can improve responder safety and incident management. According to Accenture, digital transformation presents one of the biggest challenges for public safety agencies. Globally, the public safety and security market was USD\$435 billion in 2021 and is expected to reach USD\$868 billion by 2028, growing at a CAGR of 10.4%, according to Fortune Business Insights. We have evolved a CIMS system under a SaaS model, branded “DEFSEC Lightning™” to appeal to public safety agencies who may find it attractive to adopt this as a service rather than purchase hardware and software.

The major factors fueling the public safety market include rising instances of mass shooting, natural disasters, terrorist activities and security breaches as well as increasing law enforcement requirements for public safety and investments in public safety measures for smart cities.

Counter Threat

Our BLDS product was developed expressly to address the health and safety threats from weaponized and/or targeting laser devices utilized by adversaries in the field and to aid in the prevention of friendly fire incidents.

Our Phantom product was developed to provide additional protection to friendly forces by confusing adversaries’ Electronic Warfare operators, preventing them from targeting our forces.

[Table of Contents](#)

We also continue to explore potential application of our technologies to the counter unmanned aircraft system (“C-UAS”) market. The rapid proliferation of small hostile drones continues to be a growing worldwide problem for military forces, sensitive facilities, and public security agencies. Most counter-drone systems are electronic, designed to detect, identify, track and, if possible, disrupt the communications protocols of drones to prevent completion of their mission. Increasingly, however, drones are being developed by adversaries that are difficult or impossible to disrupt electronically. Military and Homeland Security agencies are therefore seeking alternatives for stopping drones kinetically but without collateral damage. We have been conferring with various C-UAS vendors regarding a system for the domestic market that can be made interoperable with our digitization offerings to provide public safety agency a full solution.

Competitive Conditions

Less-Lethal

We expect our competition for less-lethal PARA SHOT™ products will primarily be manufacturers of:

- handheld CO²-powered or air powered launchers of chemical irritant projectiles, including Byrna Technologies Inc. (which sells products under the Byrna® HD brand), United Tactical Systems, LLC (which sells products under the PepperBall brand), and FN Herstal;
- conductive energy devices, including Axon Enterprises, Inc. (which sells the TASER device); and
- remote restraint devices, including Wrap Technologies Inc.

Our competitive advantage is principally our proprietary system consisting of:

- a LEC system with a cartridge casing that generates spin to a projectile, a far more reliable platform than air-based launchers;
- inexpensive firing platforms in any design that fire only our PARA SHOT™ cartridges;
- different payloads in the projectile for various applications;
- velocities and muzzle energy far below the “lethal” threshold;
- simple internal mechanisms with few components simplifying the manufacturing process; and
- a patented system whereby the cartridge casing generates spin to a projectile to stabilize it for accuracy over distance.

Our Chairman was the inventor of PARA SHOT™. He was previously the founder of Simunition™, a manufacturer of less-lethal training ammunition, since sold to General Dynamics. Further, he was also the Chief Executive Officer and Executive Chairman of United Tactical Systems, LLC, a company offering public-safety products for law enforcement, military and personal defense under the PepperBall™ brand. Accordingly, he brings a wealth of market knowledge to us. Additionally, we have staff with many years of experience in firearms development and manufacturing. In August 2021, we also hired a senior Technical Manager with over 17 years of firearms manufacturing experience. He previously held senior roles at Colt Canada including most recently R&D Manager and Product Support Engineering. While we do not build lethal firearms, this experience is very relevant for building our PARA SHOT™ business.

Many air-powered (CO²-powered) devices are complex and less reliable, specifically:

- ambient temperature causes performance to vary, especially in colder weather;
- synthetic seals and “O” rings dry out and can cause catastrophic failures; and
- such devices entail long logistics tails (for example, heavy air tanks, compressors and spare parts).

Our patent application with the USPO for our proprietary cartridge-based firing system was approved and the patent issued effective October 31, 2023.

For the ARWEN®’s product line, our primary competitors are the following:

- DEFTEC / Safariland’s 40 mm LTM launchers; and
- ALS (a Pacem Defense Company)’s single shot 37mm and 40mm launchers and 40mm multi-shot launchers.

[Table of Contents](#)

A further market advantage is the access to the law enforcement market through our ownership of ARWEN[®], and the strength of its brand, which has been selling less-lethal systems to law enforcement agencies internationally for over 30 years. As a result of our acquisition of Police Ordnance, we believe there are synergies between our PARA SHOT[™] and ARWEN[®] products such as access to law enforcement market for PARA SHOT[™], providing a low-energy cartridge for ARWEN[®] launchers and combining facilities and engineering.

We have developed a 40mm ARWEN[®] baton cartridge which we believe has the superior performance of the 37 mm cartridge and is designed to work in most third-party 40mm launchers. We are currently in the process of introducing this to selected law enforcement tactical teams for test and evaluation, with plans for volume production and roll-out to the market in Fiscal 2026.

Digitization and Counter-Threat

Our competition for digitization and counter threat business lines is primarily:

- R&D labs funded by the U.S. Department of Defense for developing systems like TASCs;
- Fabrique Nationale Herstal S.A. for their remote weapon stations (although these do not offer high angular resolution like TASCs); and
- known developers of electronic decoy systems including Motorola (Tactical TV Decoys), Synchopated Engineering (Mockingbird RF Signal Emulator), and CACI Systemware (MAGPIE).

We are currently not aware of any major direct competitors for the combination of capabilities and low cost that our BLDS technology will bring apart from legacy detection systems that provide very basic detection.

Our competitive advantage is the significant experience that we have in soldier systems (which we consider to be any device that a soldier carries onto the battlefield, ranging from a communications device to a sensor), weapons, and sensor fields. Our expertise in the field of networked weapons has been recognized by the United States military who requested that we participate in the NATO working group tasked with developing standards and requirements for these types of networked weapons.

We are also not aware of any major direct competitors for our CIMS (DESEC Lightning[™] as a SaaS in Canada, although there are many organizations who provide TAK development services to law enforcement.

Seasonality

We do not expect our less-lethal business line will be exposed to seasonality. While our Digitization and Counter-Threat business lines may be affected by national military budgetary cycles, as well as federal, state and local government spending, we expect the various customers having different spending cycles will mitigate our potential cyclicity exposure.

Manufacturing and Availability of Raw Materials

Less-Lethal

We have outsourced the engineering work for the PARA SHOT[™] devices to a third party, with oversight by us. Additionally, we plan to rely upon strategic alliances with OEMs for the manufacturing and distribution of our PARA SHOT[™] products.

For the ARWEN[®] launchers, components are outsourced to various suppliers and assembled by an outsourced manufacturer.

Today, we are not aware of material sourcing issues or pricing volatility of raw materials, except for price volatility for certain components to manufacture ARWEN[®] ammunition that will be required for our less-lethal business line (see *Item 3.D. –Risk Factors – We Are Dependent on Key Suppliers for our ARWEN Product Line*).

Digitization and Counter-Threat

Today we have assembled a team of engineers, technicians and advisors that have significant experience in soldier systems (which we consider to be any device that a soldier carries onto the battlefield, ranging from a communications device to a sensor), weapons, and sensor fields. It is this combination of disparate knowledge sets that enables us to integrate and develop innovative solutions. We leverage from this same pool of talent to deploy our Lightning™ SaaS product for the public safety market.

All current product development is done at our facility in Ottawa (see *Item 4.D. – Property, Plants and Equipment*). For as long as market demand justifies a low rate of production quantities, we will internally produce these products. Once demand reaches quantities necessitating commercial-level production quantities, we will outsource our production to companies specifically suited to producing each particular product. We are not aware of any material regulatory approvals that are required for us to outsource production.

Marketing Plans and Strategies

Less-Lethal

Initially we plan to sell our PARA SHOT™ to the professional market which includes law enforcement agencies and then to the consumer market through an e-commerce store and a network of distributors. We plan to hire sales and marketing resources during 1H Fiscal 2025 for the commercialization of PARA SHOT™.

For the ARWEN® launchers, we plan to continue direct sales to law enforcement agencies, with marketing via tradeshows and social media/web-based.

As part of our marketing efforts, we have attended or are planning to attend the following tradeshows to promote all DEFSEC products and services:

Tradeshow	Location	Date of Event
CACP / BCACP Police Leadership Conference	Vancouver, BC	January 18-20
CACP Information and Technology Summit	Vancouver, BC	February 22-24
EnforceTAC	Nuremburg, Germany	February 23-25
SPIE Defense + Commercial Sensing 2026	National Harbour, Maryland	April 26–30
OTAB Ontario Tactical Association Body Event	Collingwood, ON	May 11-14
CANSEC	Ottawa, ON	May 27-28
Eurosatory	Paris, FR	June 15-19
NTOA Law Enforcement Operators Conference	Nashville, TN	August 30-Sept 4
Canadian Emergency Preparedness & Climate Adaptation Convention	Edmonton, AB	September 24-26
DEFSEC Atlantic	Halifax, NS	October 6-8
AUSA Global Force Symposium & Exposition	Washington D.C.	October 12-14
Best Defence	London, ON	October 20–21

Proprietary Protection

We have the following registered trademarks:

Trademark	Country	Application # / Registration #	Status / Registration Date
ARWEN®	Canada	TMA657,575	January 31, 2006
ARWEN®	Great Britain	UK00001247086	July 27, 1985
ARWEN®	Singapore	T9105613J	June 8, 1991
ARWEN®	United States	1,404,833	August 12, 1986

[Table of Contents](#)

We have the following trademark and design mark pending or allowed, as indicated:

Trademark	Country	File Date for Pending	Application # / Registration #	Status / Registration Date
PARA OPS™	United States	February 2, 2022	97/248,319	Pending
EVERYONE GOES HOME ALIVE	Canada	August 10, 2022	2,203,009	Pending
EVERYONE GOES HOME ALIVE	United States	September 16, 2022	97/594,701	Pending
GREY GHOST	Canada	8/10/2020	2,044,815	Pending
PARA SHOT™	Canada	11/9/2023	2,292,216	Registered
PARA SHOT™	United States	11/30/2023	98/292,215	Pending
KWESST LIGHTNING™	Canada	11/17/2023	TMA1,278,008	Registered
KWESST LIGHTNING™	United States	11/30/2023	98/292,239	Allowed
DEFSEC LIGHTNING	Canada	10/10/2025	2,430,068	Pending
Phantom	Canada	8/24/2020	TMA1,330,260	Registered
Phantom	United States	8/25/2020		Pending
Kwesst	Canada	11/12/2020	TMA1,282,162	Registered
Kwesst	United States	2/8/2021		Pending

We have the following patent pending or issued applications:

Product line	Country	File Date for Pending	Application # / Registration #	Status / Registration Date
LOW ENERGY CARTRIDGE (PARA SHOT™)	Australia	October 27, 2022	2022259822	Pending
LOW ENERGY CARTRIDGE (PARA SHOT™)	United States	February 11, 2022	17/669,420	Issued October 31, 2023
Lightning™	WIPO	October 11, 2024	PCT/CA2024/051340	Published
LOW ENERGY CARTRIDGE (PARA SHOT™)	Canada	October 24, 2022	3,179,723	Published
BLDS	Canada	July 19, 2021	3,186,490	Published
LOW ENERGY CARTRIDGE	United States	October 5, 2023	18/377,113	Issued Patent No. 12,078,462B2

Government Regulations

Less-Lethal

United States

In February 2022, we retained the services of Orchid Advisors to assist us with the classification and ATF compliance for our PARA SHOT™ devices. Orchid Advisors is an FFL compliance solutions firm headquartered in Hartford, Connecticut.

Based on Orchid Advisor’s interpretation of the ATF rules and regulations, we have self-classified the .67 caliber version of the PARA SHOT™ devices as a “destructive device,” providing us with the ability to go to market much sooner than waiting for ATF classification ruling. Under the ATF rules, a manufacturer must determine whether the device is a firearm and therefore be subject to ATF regulation and if it is a firearm whether it is subject to National Firearms Act of 1934 (“NFA”) regulations.

To be considered a regulated firearm in the United States, the device must be: (i) a weapon that (ii) will or is designed to expel a projectile (iii) by the action of an explosive. Although primers in cartridges are exempt from control under the explosives regulations as administered by ATF, they are still considered an “explosive” for the purposes of the firearm definition. Because we use primers in the cartridges for our PARA SHOT™ devices, we have decided to self-classify our PARA SHOT™ devices as a form of firearm in the United States pending any different eventual classification by the ATF. The Company has submitted a sample of the PARA SHOT™ Micro (single shot launcher) to the ATF and received confirmation by the ATF that the PARA SHOT™ sample evaluated, is considered a firearm.

[Table of Contents](#)

For any device classified as a firearm in the United States, it must be determined whether an additional level of control is imposed by the NFA. Under NFA regulations, there are only two possible types of NFA firearm that PARA SHOT™ could be defined as: (1) a “any other weapon” (“AOW”) or (2) a “destructive device”. Sale of either of these to consumers is permissible but requires a lengthy approval process conducted by the ATF (the background check process on the consumer); whereas sale to law enforcement agencies, military bodies, or government agencies is a more expedient approval process (usually less than 7 days). Further, the AOW classification requires only a \$5 transfer tax to consumers whereas a destructive device classification results in a \$200 transfer tax to consumers (such tax being borne by the consumer). While our PARA SHOT™ is less-lethal (the kinetic energy of our projectile is well below lethal threshold), we have determined that the current version of our PARA SHOT™ devices are “destructive devices” because the measurement of the bore of our device is currently in excess of the one-half inch in diameter, the maximum size for AOW.

Having received an opinion from the ATF classifying the PARA SHOT™ device as a firearm and AOW in the United States, we expect initial revenues to come primarily from United States law enforcement agencies as there are otherwise certain barriers to selling destructive devices to civilians including licensing, tax stamps and additional verification and administrative procedures. However, the sales cycles are much shorter in the civilian market. Given that the ATF has confirmed that it is a firearm and AOW, we will continue to self-classify as a destructive device until we receive an ATF opinion on the same. If the ATF deems it a destructive device, we will consider resubmitting for determination with a .49 caliber version of the cartridge to obtain a decision on whether it is considered a “destructive device” which would reduce the barriers to selling to the civilian market as described above. This may not require any alteration to the launcher itself and we have already developed prototypes of the lower caliber cartridges for submission if necessary however, there can be no assurance that the ATF would grant a classification as not a destructive device without a minor modification to the launcher variant that allows for only the .49 caliber version of the projectile to be used.

In July 2022, we entered into a consulting agreement with an FFL engineering firm, Bachstein Consulting LLC, in the United States to finalize the prototype for the PARA SHOT™ single and multi-shot devices, including LRIP during Q1 Fiscal 2023. We continued to pursue development through Fiscal 2023 and the first half of Fiscal 2024 of a non-pyrotechnic energy actuator for PARA SHOT™ in conjunction with a smaller diameter cartridge and projectile which, together, we expected would result in a next-generation version of PARA SHOT™ products that would be considered non-firearms in most jurisdictions. The distribution of our PARA SHOT™ in the United States will be done directly with FFL distributors/firearm dealers for civilian sales. Today, all 50 states of the United States allow civilians to own a firearm subject to the firearm laws of the state (which vary by state). Once launched we expect the sales of our PARA SHOT™ devices will position us well for significant recurring revenues through the sale of subsequent cartridges over the next 12 months (see *Item 3.D. – Risk Factors – A Significant Portion of Our Revenues Are Non-Recurring*).

For the less-lethal ARWEN® products, we maintain a firearm business license (the “Firearm Business License”) issued by the Chief Firearms Office of the Ontario Ministry of the Solicitor General and we are also registered under the Controlled Goods Program in Canada. For further information, see *Item 4.B. – Business Overview – Digitization and Counter Threat*. Additionally, we previously maintained a Federal Explosives License/Permit for the manufacturing of explosives and a FFL for manufacture and sale of destructive devices, both issued by the ATF in the United States, we abandoned these licenses in favor of Stateside outsourced production and handling by knowledgeable organizations who themselves hold the requisite licenses to maximize efficiency in the supply chain. All sales of our ARWEN® launchers are made directly to law enforcement agencies and other eligible professional users.

Rest of the World

As our current focus is commercializing PARA SHOT™ in the United States, we have not begun analyzing the related government regulations for the rest of the world.

Digitization and Counter-Threat

Firearm Business License

In Canada, we maintain through our wholly owned subsidiaries a Firearm Business License with the Chief Firearms Officer of the Ontario Ministry of Solicitor General for our following business activities:

- Manufacture, modification and assembly: prohibited weapons, ammunition, restricted firearms, prohibited devices, prohibited ammunition, prohibited handguns, non-restricted firearms, prohibited firearms;
- Retail sales (including consignment sales): restricted firearms and non-restricted firearms;

[Table of Contents](#)

- Wholesale: Prohibited handguns, non-restricted firearms, ammunition, prohibited firearms, restricted firearms, prohibited weapons, prohibited devices;
- Consignment sales: prohibited firearms including prohibited handguns;
- Gunsmithing: prohibited firearms, prohibited handguns, non-restricted firearms, restricted firearms;
- Transportation of inventory: prohibited firearms, ammunition, prohibited handguns, non-restricted firearms, prohibited ammunition, prohibited devices, restricted firearms, prohibited weapons;
- Storage of firearms: restricted firearms, non-restricted firearms, prohibited firearms, prohibited handguns;
- Export: ammunition, prohibited handguns, non-restricted and restricted firearms, prohibited ammunition, prohibited firearms, prohibited weapons, prohibited devices;
- Possession for the purpose of instruction: restricted firearms, ammunition, non-restricted firearms, prohibited handguns;
- Import: prohibited firearms, non-restricted firearms, prohibited devices, prohibited ammunition, ammunition, prohibited weapons, prohibited handguns and restricted firearms;
- Retail sales of non-prohibited ammunition;
- Development, modification and/or testing: prohibited weapons, restricted firearms, non-restricted firearms, prohibited firearms, prohibited handguns, prohibited devices, and ammunition; and
- Exhibiting at out-of-province gun show: non-restricted firearms, ammunition and restricted firearms.

The Firearm Business License is for the purposes of: (i) the performance of a contract entered into by the Government of Canada, the government of a province, the government of a municipality acting on behalf of a police force, or a police force, or by a person acting on behalf of such a government or a police force; and (ii) the development, modification or testing of a prohibited firearm, prohibited weapon, prohibited device or prohibited ammunition, or any component or part thereof, for the purpose of training, or supplying goods or training materials used in the training of, a public officer as defined in subsection 117.07(2) of the Criminal Code (Canada), who is acting in the course of his or her duties or employment.

The Company's Chairman holds the role of Chief Firearms Official and has the responsibility of overseeing compliance with our firearms and explosives licenses in all regards. As of the date of this Annual Report, we believe we are fully compliant with all the conditions under which the Firearm Business License is delivered and maintained.

We have a Firearms Business License that covers any potential scenario that we may from time to time be involved in which such a license would be required. We are currently not in the retail or consignment sale of firearms and do not expect to be in this type of business.

For greater clarity, we use real firearms in the development and testing of our products as well as in training users on their use. Any device such as the TASCs IFM or TASCs NORS must be developed and tested on the weapon platforms for which it is designed. The Shot Counter is designed to work on automatic weapons in military and police inventories. These types of weapons are classified as prohibited and are solely utilized in the development and testing of the product. Replica systems are utilized for static demonstrations, trade shows and other non-firing events. The Company is no longer pursuing the development of the Shot Counter.

We procure ammunition such as those required for mortars, grenade launchers and others weapon types to conduct testing and evaluation. On occasion, we may need to export ammunition in support of demonstrations.

Controlled Goods Program

In Canada, an individual or organization must register in the Controlled Goods Program with Public Services and Procurement Canada if they need to:

- examine, possess or transfer controlled goods (munitions);
- transfer controlled goods outside of Canada; or
- receive bid solicitation documents containing controlled goods or controlled technology.

We are registered in the Controlled Goods Program and believe we are in compliance as of the date of this Annual Report.

Economic Dependence

As an early-stage company, the revenue stream in our fiscal year ending September 30, 2021 (“Fiscal 2021”) for the TASCs system was concentrated on one United States military customer. We recognized 98.3% of the total revenue (USD\$0.8 million) for this United States military customer during Fiscal 2021 (see *Item 5.E. –Critical Accounting Estimates*). We delivered the remaining milestone and recognized the remaining 2.7% of the total revenue during the first quarter of Fiscal 2022. While we originally expected to receive follow-on orders for our TASCs IFM 81mm mortar system they are likely to be under multi-year “Joint Fires” programs. There is no assurance of such orders in the future.

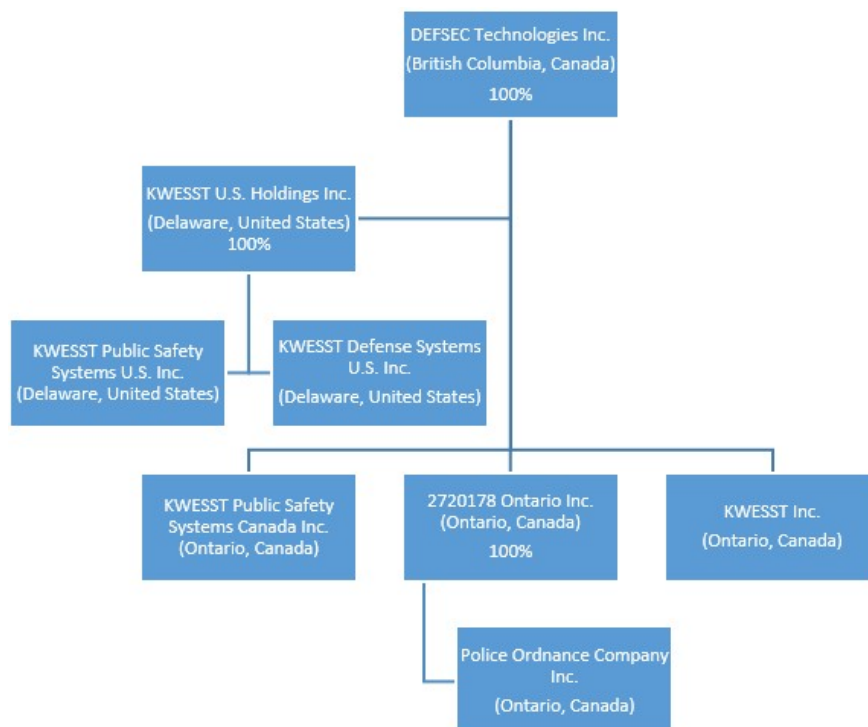
Since September 30, 2021, we have further diversified our revenue base as a result of the Police Ordnance Acquisition. Additionally, on December 1, 2021, we entered into a master professional services agreement (the “MPSA”) with General Dynamics Mission System (“GDMS”) to support the development of digitization solutions for future Canadian Land C4ISR programs under Strong, Secure, Engaged: Canada’s Defence Policy. This includes TAK integration and other digitization services over 12 months. The MPSA serves as the master agreement and governs the basic terms and conditions for all future statements of work (“SOW”) but does not in itself give rise to financial rights or obligations for either GDMS or us nor does it ensure that a future SOW will be awarded. Accordingly, there are no material terms in the MPSA except for the termination provision. At its sole discretion, GDMS may terminate the MPSA and/or a SOW by written notice to us. Under such event, GDMS will be liable for work rendered or expenses incurred prior to the effective date of such termination for which payment has not been made to us. GDMS may also terminate the MPSA immediately in the event of default (as defined in the GDMS). Concurrently with entering in the MPSA, we entered into a SOW with GDMS for the first phase of the project which was delivered by the end of Q3 Fiscal 2022 and fully collected. GDMS accounted for 41% of our Fiscal 2022 consolidated revenue. During Q1 Fiscal 2023 we entered into another SOW with GDMS for USD\$0.1 million, which we delivered by the end of the quarter. In Q4 2022 we entered into a three-year contract with CCT to provide support for the GSAR program with Public Safety Canada. In Fiscal 2023 the GSAR revenue made up approximately 23% and 20% in Fiscal 2024 of total annual revenue. In Fiscal 2024, we began work on the DSEF and Land C4ISR contracts and they made up 36% and 8%, respectively, of total annual revenue in Fiscal 2024. With the commercial launch of PARA SHOT™ product line in Fiscal 2024 and continued product sales from the ARWEN® launchers and ammunition, we anticipate our total consolidated revenue will continue to diversify with various customers, resulting in less dependence on limited customers to drive positive cash flows and profitability. In Fiscal 2025, we continued work on the DSEF and Land C4ISR contracts and they made up 12% and 65%, respectively, of total annual revenue in Fiscal 2025. With the growth in product sales of ARWEN® launchers and ammunition we continued to see diversification in total consolidated revenues.

Foreign Operations

We established office space in Stafford, Virginia to conduct United States business development activities and anticipated light assembly and distribution for our less-lethal, Digitization, and Counter-Threat business lines. We released this space in the summer of 2023 and rented alternative space in the premises of our outsourced PARA SHOT™ devices manufacturer in North Carolina for greater economy and convenience. The North Carolina space was released on December 31, 2024.

C. Organizational Structure

The following chart illustrates our wholly-owned subsidiaries:



KWESST U.S. Holdings Inc.

On May 2, 2022, we incorporated a wholly-owned United States holding subsidiary in Delaware (United States).

KWESST Public Safety Systems U.S. Inc.

On May 2, 2022, we incorporated a wholly-owned United States subsidiary in Delaware (United States), for the PARA SHOT™ product line in the United States (see *Item 4.B. - Business Overview*).

KWESST Defense Systems U.S. Inc. (formerly KWESST U.S., Inc.)

On January 28, 2021, we incorporated a wholly-owned United States subsidiary in Delaware (United States), named KWESST U.S., Inc., and established an office in Stafford, Virginia (United States) to further pursue Digitization and Counter-Threat business opportunities in the United States. On June 3, 2022, we amended the certificate of incorporation of the subsidiary to change the name to KWESST Defense Systems U.S. Inc.

KWESST Public Safety Systems Canada Inc.

On April 6, 2022, we incorporated a wholly-owned subsidiary in Ontario (Canada), for the PARA SHOT™ business line in Canada (see *Item 4.B. - Business Overview*).

2720178 Ontario Inc. and Police Ordnance Company Inc.

On December 15, 2021, we acquired 2720178 Ontario Inc., which owns all of the issued and outstanding shares of Police Ordnance, a company incorporated in Ontario (Canada) (see *Item 4.A. - History and Development of the Company - Principal Capital Expenditures and Divestitures*). These are wholly-owned subsidiaries of the Company.

KWESST Inc.

On April 24, 2017, we incorporated a company in Ontario (Canada) named KWESST Inc. for the Digitization and Counter-Threat business lines.

On September 17, 2020, pursuant to the Qualifying Transaction (as defined below), KWESST Inc. amalgamated with Subco, with the amalgamated company retaining the name of “KWESST Inc.”

D. Property, Plants and Equipment

We do not own any real estate property. We operate from leased premises in three different locations, as detailed in the following table:

Location	Area (approx.)	Premise Use	Expiry Date
80 Hines Rd, Suite 300, Ottawa, Ontario, Canada	15,670 sq. ft.	Corporate offices and administration, R&D	May 31, 2031 (renewal extension of 5 years)
155 Terence Matthews, Unit#1, Ottawa, Ontario, Canada	7,200 sq. ft.	Corporate offices and administration, R&D	April 30, 2026 (renewal extension of 5 years)
557 Massey Road, Guelph, Ontario, Canada	5,500 sq. ft.	Vacant	October 31, 2026 (renewal extension of 2 years to 2028)

At September 30, 2025, the carrying value of our total tangible fixed assets was approximately \$0.3 million mostly held in Ottawa, Ontario, Canada.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Certain share-related information presented in this section gives effect to the Reverse Splits.

The following Operating and Financial Review and Prospects section is intended to help the reader understand the factors that have affected the Company's financial condition and results of operations for the historical period covered by the financial statements and management's assessment of factors and trends which are anticipated to have a material effect on the Company's financial condition and results in future periods. This section is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements and the other financial information contained elsewhere in this document. Our audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). Our discussion contains forward-looking statements based on current expectations that involve risks and uncertainties, such as our plans, objectives and intentions. Our actual results may differ from those indicated in such forward-looking statements.

A. Operating Results

RESULTS OF OPERATIONS

The following selected financial data has been extracted from the audited consolidated financial statements for the year ended September 30, 2025 ("Fiscal 2025 FS"):

	2025	2024	2023	Change 2025 vs 2024	Change 2024 vs 2023
Revenue	\$ 4,942,626	\$ 1,504,328	\$ 1,234,450	229 %	22 %
Cost of sales	(3,204,578)	(1,017,826)	(1,425,828)	215 %	(29)%
Gross profit (loss)	1,738,048	486,502	(191,378)	257 %	(354)%
<i>Gross Margin %</i>	<i>35.2 %</i>	<i>32.3 %</i>	<i>(15.5)%</i>		
Operating expenses					
General and administrative	5,225,997	4,836,815	6,165,297	8 %	(22)%
Selling and marketing	2,037,088	1,525,228	2,892,679	34 %	(47)%
Research and development	2,367,995	2,354,160	1,529,572	1 %	54 %
Share-based compensation	113,692	291,761	373,554	(61)%	(22)%
Depreciation and amortization	1,073,727	1,277,911	952,508	(16)%	34 %
Total operating expenses	10,818,499	10,285,875	11,913,610	5 %	(14)%
Operating loss	(9,080,451)	(9,799,373)	(12,104,988)	(7)%	(19)%
Other income (expenses)					
Share issuance costs	(1,807,686)	(541,566)	(1,985,074)	234 %	(73)%
Net finance costs	(173,375)	(196,323)	(668,034)	(12)%	(71)%
Foreign exchange gain (loss)	114,347	59,191	(98,275)	93 %	(160)%
Impairment of right-of-use-asset	(88,596)	—	—	— %	— %
Change in fair value of warrant liabilities	1,402,258	3,047,568	5,841,192	(54)%	(48)%
Gain/loss on disposals	6,809	(7,256)	(291,181)	(194)%	(98)%
Total other income (expenses), net	(546,243)	2,361,614	2,798,628	(123)%	(16)%
Loss before income taxes	(9,626,694)	(7,437,759)	(9,306,360)	29 %	(20)%
Income tax recovery					
Deferred tax recovery	—	—	—	— %	— %
Net loss	\$ (9,626,694)	\$ (7,437,759)	\$ (9,306,360)	29 %	(20)%
EBITDA loss	\$ (8,379,592)	\$ (5,963,525)	\$ (7,685,818)	41 %	(22)%
Adjusted EBITDA loss ⁽¹⁾	\$ (7,893,032)	\$ (8,229,701)	\$ (10,778,926)	(4)%	(24)%
Loss per share - basic and diluted	\$ (15.78)	\$ (188.86)	\$ (478.85)	(92)%	(61)%
Weighted average Common Shares - basic and diluted	610,169	39,382	19,435	—	—

(1) EBITDA and Adjusted EBITDA are non-IFRS measures. See "Non-IFRS Measures". See below for "Reconciliation of Non-IFRS Measure".

[Table of Contents](#)

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

	2025	2024	2023
Net loss as reported under IFRS	\$ (9,626,694)	\$ (7,437,759)	\$ (9,306,360)
Net financing costs	173,375	196,323	668,034
Depreciation and amortization	1,073,727	1,277,911	952,508
Deferred tax recovery	—	—	—
EBITDA loss	(8,379,592)	(5,963,525)	(7,685,818)
Other adjustments:			
Stock-based compensation	113,692	291,761	373,554
Share issuance costs	1,807,686	541,566	1,985,074
Impairment of right-of-use-asset	88,596	—	—
Fair value adjustment on derivatives	(1,402,258)	(3,047,568)	(5,841,192)
Foreign exchange loss (gain)	(114,347)	(59,191)	98,275
Gain/loss on disposals	(6,809)	7,256	291,181
Adjusted EBITDA loss	(7,893,032)	(8,229,701)	(10,778,926)

Current Year Variance Analysis (2025 vs. 2024)

For Fiscal 2025 net loss was \$9.6 million compared to \$7.4 million in Fiscal 2024. Fiscal 2025 EBITDA loss was \$8.4 million, compared to \$6.0 million for the same period last year. The increase in net loss and EBITDA loss of \$2.4 million is due primarily to an increase in operating expenses in all areas. This was offset by an increase in gross margin of \$1.2 million as described in further detail below.

Revenue

Total revenue increased by \$3.4 million in Fiscal 2025 as compared to Fiscal 2024, mainly due to an additional \$3.0 million generated from the digitization business line and \$0.4 million of additional ARWEN[®] sales. The increase is due to the significant ramp-up on the Land C4ISR contract beginning in the first quarter of fiscal 2025 as well as a refocus on the ARWEN[®] product line and the significant reduction of the order backlog due to improvements made to the Company's supply chain for these products.

Gross Margin

Gross margin percentage increased from 32.3% in Fiscal 2024 to 35.2% in Fiscal 2025 mainly due to the continued ramp-up and established margins being achieved from the digitization business line offset by lower margins achieved on the ARWEN[®] product line due to the difference in product mix being sold over the comparable periods, with an increase in launcher sales in Fiscal 2025. The ARWEN[®] product line was refocused around reliable suppliers as well as manufacturing agreements and improved customer satisfaction with the continued elimination of the backlog of orders and speedier order fulfilment.

Outlook

Management expects revenue to continue to increase as it adds additional resources to fulfill its Canadian Government Defence programs. Beginning in February 2026 the Company is expecting its government services business to grow to approximately CAD\$8.8⁵ million of program billings on an annualized go-forward basis. Management continues to work closely with industry partners and prime contractors on the outlook for growth. The Company also expects revenue to increase with continued growth in the ARWEN[®] business including the expected demand/future orders for the new 40mm ammunition and PARA SHOT[™] products as well as the commercial launch of DEFSEC Lightning[™]. Management also expects the initial order of BLDS in the year to result in requests for additional networked prototypes ultimately resulting in future revenue.

⁵ Unaudited, non-IFRS measure. See Item 5. A – Operating Results – Non-IFRS Measures.

Operating Expenses (“OPEX”)

Total OPEX increased by \$0.6 million when comparing Fiscal 2025 to the same period last year. OPEX for Fiscal 2025, comprised of:

- General and administrative expenses increased by \$0.4 million or 8% as compared to the same period last year. The increase is predominantly due to additional costs to support the additional headcount added during the year, which is attributing to the increase in revenue in Fiscal 2025.
- Sales and marketing expenses increased by \$0.5 million, due to a shift in focus to drive increased business development efforts, especially for ARWEN® 40mm, PARA SHOT™ and DEFSEC Lightning™; and
- Research and development expenses in Fiscal 2025 was flat as compared to Fiscal 2024. As engineering cost reductions related to the PARA SHOT™ products were offset by higher costs on our other product lines.

Other income (expenses), net

For Fiscal 2025, total other income (expenses) decreased by \$2.9 million, resulting in a net other expense of \$0.6 million as compared to a net other income of \$2.4 million. The change in total other income (expenses) was driven mainly by:

- a \$1.4 million gain from the change in fair value of warrant liabilities as compared to a \$3.0 million gain in Fiscal 2024. The gain in both year is as a result of the remeasurement of the warrant liabilities at each balance sheet date. Under IFRS, we are required to remeasure the warrant liabilities at each reporting date until they are exercised or expired; and
- a \$1.3 million increase in share issuance costs incurred during the year related to the November 1, 2025 financing that was completed.

Non-IFRS Measures

In addition to its results presented in accordance with IFRS, DEFSEC presents certain “non-IFRS” financial measures on a supplemental basis. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management’s perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS.

The non-IFRS measures used herein includes “annualized gross margin contribution” and “program billings on annualized go-forward basis”, which are unaudited, non-IFRS measures.

“Annualized gross margin contribution”, refers to gross margin dollars based on the staff and other related costs for the entire year at the program billing rate. Management believes annualized gross margin contribution is a useful measure because it aligns with annualized revenue and billings. The most directly comparable financial measure that is disclosed in the financial statements of the Company to which this non-IFRS measure relates is gross margin.

“Program billings on annualized go-forward basis”, refers to programmatic revenue based on the roles staffed for a full year at the program billing rate. Management believes program billings on annualized go-forward basis is a useful measure because it reflects management’s estimate of annualized revenues based on current contractual taskings as of the date of this release. The most directly comparable financial measure that is disclosed in the financial statements of the Company to which the non-IFRS measure relates is revenue.

These non-IFRS financial measures reflect an additional way of viewing aspects of the Company's operations that, when viewed with IFRS results and the reconciliations to the corresponding IFRS financial measures, may provide a more complete understanding of factors and trends affecting the Company's business. Because non-IFRS financial measures exclude the effect of items that will increase or decrease the Company's reported results of operations, management strongly encourages investors to review the Company's consolidated financial statements and publicly filed reports in their entirety under the Company's profile on under the Company's SEDAR+ profile at <https://sedarplus.ca/> and EDGAR profile at www.sec.gov/search-filings.

Prior Year Variance Analysis (2024 vs. 2023)

For Fiscal 2024, DEFSEC's net loss was \$7.4 million. Fiscal 2024 EBITDA loss was \$6.0 million, a decrease of 20% over the comparable prior period mainly due to an increase in revenue and gross profits from our digitization contracts combined with a decrease in operating expenses resulting from a reduction in consulting fees and investor relations costs year over year, and a reduction in G&A costs due the impairment charge on the Phantom intangible asset in Fiscal 2023 and decrease in general administrative expenditures year over year. The adjustments to EBITDA loss Fiscal 2024 included the change in fair value of derivative liabilities, and a decrease in share issuance costs from the 2024 financing activities as compared to the U.S. IPO and Canadian Offering, and July 2023 Private Placement in Fiscal 2023. There were no stock options granted in Fiscal 2024, resulting in a reduction in stock-based compensation expense in Fiscal 2024 compared to Fiscal 2023. The decrease in net financing costs in Fiscal 2024 over the comparable prior period is due to the costs related to the unsecured loans in Fiscal 2023 whereas the loans were repaid, and no such costs were incurred Fiscal 2024.

Revenue

Total revenue increased by \$0.3 million in the year compared to Fiscal 2023, mainly due to an additional \$0.2 million generated from our digitization business line and \$0.1 million from our less-lethal business line (driven from sale of ARWEN products).

At September 30, 2024, our digitization business line consisted of the two governments contracts for the DSEF and Land C4ISR programs, along with the Red Cross and ongoing GSAR programs, which generated \$1M in sales in Fiscal 2024 whereas the Fiscal 2023 \$0.8M in sales was generated by the ongoing GSAR program, delivery of four BLDS units and GDMS contract for future military digitization development.

Gross Profit

In Fiscal 2024, we earned \$0.5 million or gross margin of 32.3%, compared to negative \$0.2 million or gross margin of -15.5% in Fiscal 2023 mainly due to the cost of sales for the production and delivery of the BLDS units in Fiscal 2023 as well as onerous contracts and consultant fees in Fiscal 2023 that have since been eliminated.

Operating Expenses("OPEX")

Total OPEX decreased by \$1.6 million, or 14%, over the comparable prior year due to the following factors:

- G&A decreased by \$1 million, or 13%, primarily due the impairment charge on the Phantom intangible asset in Fiscal 2023 (\$1.5 million) and decrease in general administrative expenditures (\$0.3 million), offset by an increase in personnel cost (\$0.4 million) due to an increase in corporate headcount, which was a significant factor in the Company remediating the material internal control weaknesses disclosed in the 2023 annual filings, and related compensation consistent with increased compliance requirements related to our TSX.V and Nasdaq listing, and increase in depreciation from two additional right-of-use assets and capitalization of the ready-for-use LEC intangible asset in Fiscal 2024 (\$0.4 million);
- S&M decreased by \$1.5 million, or 49%, primarily due to a decrease in investor relations costs and related sales and marketing costs (\$1.6 million), and a decrease in business development costs (\$0.3 million), offset by an increase in personnel cost (\$0.4 million) mainly to promote our DEFSEC and ARWEN products; and

[Table of Contents](#)

- R&D increased by \$0.8 million, or 51%, primarily due to the fact that the LEC reaching commercial feasibility, and any associated costs no longer being capitalized, while it was still in the development stage in Fiscal 2023 (\$0.5 million), an increase in personnel costs advancing the DEFSEC Lightning™ and BLDS projects in Fiscal 2024 (\$0.8 million), and impairment charge on the write-off of obsolete inventory (\$0.1 million), offset by a reduction in engineering and production related consulting fees compared to the comparable prior year period (\$0.7 million).

Other income (expenses), net

For Fiscal 2024, our total other income was \$2.4 million, compared to total other income of \$2.8 million for the comparative period in 2023 resulting in a decrease of \$0.4 million. The change in other income (expenses) was driven mainly by:

- a decrease of \$1.4 million in Share Offering Costs as \$1.9 million related to the U.S. IPO and Canadian Offering, and July 2023 Private Placement in Fiscal 2023, compared to \$0.5 million associated with the two US public offering financing activities in April and June 2024, and the US registered direct offering in August 2024;
- \$0.5 million decrease in net finance costs is primarily due to the Fiscal 2023 recognition of the remaining unamortized accretion costs and interest expense relating to the repayment of all outstanding loans, following the closing of the U.S. IPO and Canadian Offering;
- a decrease of \$0.3 million in loss on disposal of PP&E due to the impairment charge on the Phantom intangible asset; and
- \$0.2 million increase in foreign exchange gain due to appreciation in the U.S. currency during the period; offset by
- \$3.0 million gain on change in fair value of warrant liabilities as a result of the remeasurement of the warrant liabilities at September 30, 2024, driven by a decrease in the underlying Common Share price on September 30, 2024. Under IFRS, we are required to remeasure the warrant liabilities at each reporting date until they are exercised or expired. They are remeasured due to the fact that the exercise price is different from the Company's functional currency, and they have a cashless exercise option which are two factors that determine the classification of these warrants as liabilities instead of equity instruments.

SUMMARY OF QUARTERLY RESULTS

The following table summarizes selected results for the eight most recent complete quarters to September 30, 2025:

	2025				2024			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	\$ 1,373	\$ 1,417	\$ 1,264	\$ 888	\$ 560	\$ 329	\$ 486	\$ 129
Net Loss	(2,409)	(2,301)	(1,460)	(3,457)	(2,337)	(1,162)	(3,540)	(399)
Net Loss per Common Share (Basic and diluted)	\$ (2.70)	\$ (3.69)	\$ (6.16)	\$ (23.94)	\$ (59.33)	\$ (27.30)	\$ (127.66)	\$ (149.10)

Quarterly Results Trend Analysis

We experienced some fluctuations within our quarterly revenue during Fiscal 2025 primarily related to the timing and fulfilment of orders for our ARWEN® products. Our digitization revenue grow quarter over quarter as we ramped up service delivery on our military government contacts. Quarterly fluctuations in net loss was due to the timing of spending for certain research and development projects by third party contractors. Financing related costs in the first quarter of fiscal 2025 is also contributing to the quarter over quarter changes in net loss.

Fourth Quarter Fiscal 2025

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

	Three Months Ended September 30,	
	2025	2024
Revenue	\$ 1,373,303	\$ 559,920
Cost of sales	(753,288)	(302,607)
Gross profit (loss)	620,015	257,313
Operating expenses		
General and administrative	1,498,996	1,029,581
Selling and marketing	645,074	399,470
Research and development, net	993,170	566,778
Share-based compensation	14,518	108,159
Depreciation and amortization	164,222	314,862
Total operating expenses	3,315,980	2,418,850
Operating loss	(2,695,965)	(2,161,537)
Other income (expenses)		
Share issuance costs	—	(174,635)
Net finance costs	(37,390)	(58,434)
Foreign exchange gain (loss)	182,097	(9,222)
Impairment of right-of-use assets	—	—
Gain/loss on disposals	—	(7,256)
Change in fair value of warrant liabilities	142,152	74,456
Total other income (expenses), net	286,859	2,361,614
Loss before income taxes	(2,409,106)	(2,336,628)
Income tax recovery		
Deferred tax recovery	—	—
Net loss	\$ (2,409,106)	\$ (2,336,628)
Net loss per share		
Basic and diluted	\$ (2.70)	\$ (55.74)
Weighted average number of shares outstanding		
Basic and diluted	892,996	41,922

Revenue

In the fourth quarter of Fiscal 2025 revenue was \$1.4 million an increase of \$0.8 million as compared to the same period last year. As noted above, the increase is mainly due to additional revenue from the digitization business line and additional ARWEN® sales. The increase is due to the significant ramp-up on the Land C4ISR contract beginning in the first quarter of fiscal 2025 as well as a refocus on the ARWEN® product line and the significant reduction of the order backlog due to improvements made to the Company's supply chain for these products.

Operating Expenses

Total OPEX was \$3.3 million in the fourth quarter of Fiscal 2025 compared to \$2.4 million for the fourth quarter of Fiscal 2024 an increase of \$0.9 million, or 37%, over the comparable prior year quarter. The change is due to increased spending in all areas as we ramp up operations to bringing our PARA SHOT™, DEFSEC Lightening and BLDS products to market and continue to grow our digitization and ARWEN® revenue streams.

Net Loss

Our net loss was \$2.4 million for the quarter ended September 30, 2025, a \$0.1 million increase from the fourth quarter of Fiscal 2024, primarily driven by a \$0.2 million in share issuance costs incurred in the fourth quarter of Fiscal 2024 as compared to \$nil in share issuance costs incurred in the fourth quarter of Fiscal 2025.

B. Liquidity and Capital Resources

a. FINANCIAL CONDITION

The following table summarizes our financial position:

	September 30, 2025	September 30, 2024	September 30, 2023
ASSETS			
Current	\$ 8,946,025	\$ 1,842,355	\$ 6,842,074
Non-currents	3,975,451	3,774,793	4,916,758
Total Assets	\$ 12,921,476	\$ 5,617,148	\$ 11,758,832
Liabilities			
Current	\$ 2,918,205	\$ 2,975,581	\$ 6,383,635
Non-current	2,201,552	1,273,280	1,439,577
Total Liabilities	5,119,757	4,248,861	7,823,212
Net assets	\$ 7,801,719	\$ 1,368,287	\$ 3,935,620
Working capital ⁽¹⁾	\$ 6,027,820	\$ (1,133,226)	\$ 458,439
Indebtedness:			
Borrowings	\$ —	\$ —	\$ —
Lease liabilities	1,303,450	302,223	429,523
Warrant liabilities	210,965	847,295	4,335,673
Total debt	\$ 1,514,415	\$ 1,149,518	\$ 4,765,196

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

Our working capital was \$6.0 million at September 30, 2025, an improvement of \$7.2 million from September 30, 2024. The improvement was primarily due to the proceeds from three financings in Fiscal 2025 as well as decreased cash flows from operations relating to digitization contracts and ARWEN. Current liabilities include warrant liabilities, a non-cash liability item. Excluding warrant liabilities, working capital would be \$6.2 million (September 30, 2024 – negative \$0.3 million). These warrant liabilities will be extinguished when the warrants are exercised or expired. If exercised, the proceeds will provide additional capital to fund future working capital requirements. There is no assurance that any warrants will be exercised.

Total assets increased by \$7.3 million from September 30, 2025, mainly due to an increase in cash of \$6.4 million resulting from unspent proceeds from our financing activities during the year and an increase in accounts receivable of \$0.9 million due to the digitization contracts, along with an increase in right-of-use assets of \$0.9 million due to the signing of a new office lease.

Total liabilities increased by \$0.8 million from September 30, 2024, mainly due to an increase in lease obligations of \$1.0 million due to the signing of a new office lease offset by a decrease in warrant liabilities of \$0.6 million due to the exercise of warrants classified as liabilities and the fluctuation in the Company's stock price as the fair value of the warrant liability is revalued every period.

b. 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.

On November 1, 2024, we closed a public offering pursuant to which we received aggregate gross proceeds of \$4.9 million (USD\$3.5 million), before underwriting and offering costs. On November 12, 2024, we closed a private placement pursuant to which we received aggregate gross proceeds of \$3.4 million, before underwriting and offering costs. On February 21 and 25, 2025, we closed a private placement for which we received aggregate gross proceeds of \$3.7 million, before underwriting and offering costs. On July 25, 2025, we closed a public offering for which we received aggregate gross proceeds of \$6.8 million, before underwriting and offering costs.

At September 30, 2025, our cash position was \$6.7 million, an increase of \$6.4 million since September 30, 2024, primarily due to the four financings which provided gross proceeds of \$18.8 million before underwriting and offering costs as well as proceeds from the exercise of warrants of \$0.4 million, offset by the underwriting and offering costs of \$4.3 million along with the cash used in operations of \$8.0 million. The Company's also generated cash from the delivery of products and services as revenue grew \$3.4 million when comparing Fiscal 2025 to Fiscal 2024.

As an early-stage company, we have not yet reached significant revenue levels for most of our other products and have incurred significant losses and negative operating cash flows from inception that have primarily been funded from financing activities. Our ability to continue as a going concern and realize our assets and discharge our liabilities in the normal course of business is dependent upon closing timely additional sales orders, timely commercial launch of new products, and the ability to raise additional debt or equity financing, when required. There are various risks and uncertainties affecting our future financial position and our performance. Accordingly, there are material risks and uncertainties that may cast substantial doubt about our ability to continue as a going concern. Further, 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 SHOT™ system and DEFSEC Lightning™ market development efforts, timing of winning new customer contracts, potential acquisitions, and other relevant considerations. In the event we raise additional funds by issuing equity securities, our existing shareholders will likely experience dilution, and any additional incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operational and financial covenants that could further restrict our operations. Any failure to raise additional funds on terms favorable to us or at all may require us to significantly change or curtail our current or planned operations in order to conserve cash until such time, if ever, that sufficient proceeds from operations are generated, and could result in us not being in a position to advance our commercialization strategy or take advantage of business opportunities.

Consolidated Statements of Cash Flows

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

	2025	2024	2023
Total cash provided by (used in):			
Operating activities	\$ (7,957,245)	\$ (9,060,744)	\$ (14,078,629)
Investing activities	(180,408)	(111,153)	(1,440,734)
Financing activities	14,602,370	4,021,716	20,755,827
Net cash outflows	6,464,717	(5,150,181)	5,236,464
Cash, beginning of period	256,828	5,407,009	170,545
Effect of exchange rates on cash	(35,116)	—	—
Cash, end of period	6,686,429	256,828	5,407,009

[Table of Contents](#)

Cash used by operating activities

Cash flow used in operating activities decreased by \$1.1 million to \$7.9 million for the year ended September 30, 2025, primarily due to an increase in gross margin due to an increase in higher margin digitization and ARWEN® revenue and a offset by higher operating expenses.

Cash used by investing activities

Cash flows used in investing activities in Fiscal 2025 were \$0.2 million compared to \$0.1 million in Fiscal 2024 as a result of minor investments in property and equipment and patents.

Cash provided by financing activities

Cash flows provided by financing activities were \$14.6 million in Fiscal 2025 compared to \$4.0 million in Fiscal 2024. The increase was due to the four financings providing gross proceeds of \$18.8 million along with proceeds from the exercise of warrants of \$0.4 million, offset by share issuance costs of \$4.3 million and lease repayments of \$0.2 million.

Capital Resources

Our objective in managing our capital is to safeguard our 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 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 security offerings, exercise of stock options and warrants, and, to a lesser extent, borrowings and digitization and pre-commercial revenue. The following is a breakdown of our capital:

	September 30, 2025	September 30, 2024	September 30, 2023
Debt:			
Lease liabilities	\$ 1,303,450	\$ 302,223	\$ 429,523
Warrant liabilities	210,965	847,295	4,335,673
Equity			
Share capital	\$ 47,003,991	\$ 37,822,725	\$ 33,379,110
Warrants	7,764,412	1,084,687	1,042,657
Contributed surplus	5,398,445	5,152,753	4,769,115
Accumulated other comprehensive loss	(85,077)	(38,520)	(39,663)
Accumulated deficit	(52,280,052)	(42,653,358)	(35,215,599)
Total capital	\$ 9,316,134	\$ 2,517,805	\$ 8,700,816

During Fiscal 2023, we fully repaid all outstanding loans following the closing of the U.S. IPO and Canadian Offering.

Contractual Obligations and Commitments

At September 30, 2025, our contractual obligations and commitments were as follows:

Payment due:	Total	Within 1 Year	1 to 3 years	3 to 5 years	5 years and beyond
Minimum royalty commitments	\$ 2,000,000	\$ 200,000	\$ 500,000	\$ 600,000	\$ 700,000
Accounts payable and accrued liabilities	2,310,662	2,310,662	—	—	—
Lease obligations	2,250,220	169,053	617,088	414,488	1,049,591
Total contractual obligations	<u>\$ 6,560,882</u>	<u>\$ 2,679,715</u>	<u>\$ 1,117,088</u>	<u>\$ 1,014,488</u>	<u>\$ 1,749,591</u>

[Table of Contents](#)

The Company, under its LC4ISR Sub-Tier Subcontract, shall meet certain Industrial and Technological Benefits (“ITBs”) targets as a condition for fulfilling the obligations in the contract. Such requirements are part of Canada’s effort to promote economic development and increased competitiveness of the defence sector and develop, grow and sustain a diverse, talented, and innovative Canadian workforce. Under the obligations, DEFSEC will spend 100% of the contract-value as Supplier Development in Canada, specifically involving Small and Medium Business (employing fewer than 250 full-time personnel), and spend 20% of the contract value as transactions involving Skills Development and Training in the areas of Defence Systems Integration, Artificial Intelligence, Cyber Resilience, or In-Service Support. As all work under the contract is being executed in Canada by DEFSEC, 100% the Small and Medium Business requirement is expected to be met. Achievement of the Company’s Skills Development and Training requirement is expected to be met by transactions related to Senior Integrated Logistics Support Specialist (“ILS”) related roles filled under its taskings, as these have been deemed by Canada to be eligible, and DEFSEC currently has four (4) such roles of its total 17 under current taskings. While these roles are expected to fulfill its obligations over the achievement period, any penalty by way of liquidated damages, is limited in its financial impact to a maximum of 20% of the shortfall (up to 4% of total contract value). Further mitigating any potential shortfall is the ability to achieve a five (5) times multiplier for any contribution to Skills Development and Training for Indigenous Peoples or majority Indigenous-controlled educational or training facilities. Based on billings to date under this contract, the Company may have an ITB spend obligation of \$134,000. Management believes it will meet the required targets within the specified timeframes. Accordingly, no liability has been recorded in these consolidated financial statements related to this commitment.

Shares Outstanding

At September 30, 2025, 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, 2025:

	Securities outstanding	Underlying Common Shares ⁽¹⁾	Average price (CAD \$)	Proceeds if exercised
Common shares	1,396,321	1,396,321	\$ —	\$ —
Warrants	8,994,473	1,128,227	1.87	16,819,665
Pre-funded warrants	182,999	31,987	0.012	2,196
Warrant liabilities	9,539,727	45,425	3.17	30,240,935
U.S. underwriter warrants	1,489,808	89,473	2.13	3,173,291
Stock options	995	995	554.42	551,648
Total Common Shares and dilutive securities		2,692,428		\$ 50,787,735

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

The following table shows the outstanding Common Shares and dilutive securities at December 29, 2025:

	Securities outstanding	Underlying Common Shares ⁽¹⁾	Average price (CAD \$)	Proceeds if exercised
Common shares	1,993,626	1,993,626	\$ —	\$ —
Warrants	9,560,513	1,694,267	2.01	19,216,631
Pre-funded warrants	151,734	722	0.013	1,973
Warrant liabilities	9,539,727	45,425	3.04	29,000,770
U.S. underwriter warrants	1,489,808	89,473	2.07	3,083,903
Stock options	995	995	554.42	551,648
Total Common Shares and dilutive securities		3,824,508		\$ 51,854,925

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

Shares for Debt Settlement – January 2024

On January 10, 2024, we issued 222 Common Shares in settlement of debt in an amount of approximately \$97,615. See Note 16(a) of the Fiscal 2025 Consolidated Financial Statements for further details.

US Public Offering – April 2024

On April 9, 2024, we closed a brokered US public offering, resulting in the issuance of 3,500 Common Shares, for aggregate gross proceeds of \$1.4 million (US\$1.0 million) (the “April 2024 Public Offering”). See Note 16(a) of the Fiscal 2025 Consolidated Financial Statements for further details.

US Public Offering – June 2024

On June 14, 2024, we closed a brokered US public offering, resulting in the issuance of 13,809 Common Shares, for aggregate gross proceeds of \$2.3 million (US\$1.7 million) (the “June 2024 Public Offering”). See Note 16(a) of the Fiscal 2025 Consolidated Financial Statements for further details.

US Registered Direct Offering – August 2024

On August 13, 2024, we closed the August 2024 Offering for the purchase and sale of 22,452 Common Shares for aggregate gross proceeds of \$1.3million (US\$0.9 million) (the “August 2024 Direct Offering”). See Note 16(a) of the Fiscal 2025 Consolidated Financial Statements for further details.

US Public Offering – November 2024

On November 1, 2024, we closed the November 2024 Public Offering for the purchase and sale of 3,809,000 pre-funded warrants and 3,810 Common Shares for aggregate gross proceeds of \$4.9 million (US\$3.5 million). See Note 16(a) of the Fiscal 2025 Consolidated Financial Statements for further details.

Shares for Debt Settlement – November 2024

On November 11, 2024, we issued 5,669 Common Shares in a settlement of debt in an amount of \$100,000 See Note 16(a) of the Fiscal 2025 Consolidated Financial Statements for further details.

Private Placement – November 2024

On November 12, 2024, we closed the November 2024 Private Placement for the purchase and sale of 4,145,200 pre-funded warrants for aggregate gross proceeds of \$3.4 million. Each pre-funded warrant was bundled with one Common Share purchase warrant of the Company. See Note 16(a) of the Fiscal 2025 Consolidated Financial Statements for further details.

Private Placement – February 2025

On February 21, 2025, we closed the first tranche of the February 2025 Private Placement for the purchase and sale of 43,033 Common Shares and 2,884,175 pre-funded warrants and on February 25, 2025, we closed the second tranche of the private placement for the purchase and sale of 7,215 Common Shares, all for aggregate gross proceeds of \$3.7 million. Each Common Share and pre-funded warrant was bundled with one Common Share purchase warrant of the Company See Note 16(a) of the Fiscal 2025 Consolidated Financial Statements for further details.

Public Offering – July 2025

On July 25, 2025, the Company issued 673,084 Common Shares and 86,795 pre-funded warrants of the Company as part of a public offering, together with Common Share purchase warrants to purchase up to 759,879 Common Shares at a combined public offering price of \$8.955 per share or pre-funded warrant and accompanying warrant for gross proceeds of \$6.8 million. The warrants have an exercise price of \$10.52 per share, are exercisable upon issuance and expire five years following the date of issuance. See Note 16(a) of the Fiscal 2025 Consolidated Financial Statements for further details.

Registered Direct Offering – December 2025

On December 17, 2025, the Company entered into the December 2025 Securities Purchase Agreements for the purchase and sale of 566,040 Common Shares at a purchase price of CAD\$3.64 (US\$2.65) per Common Share in a registered direct offering. In a concurrent private placement, we issued unregistered warrants to purchase up to 566,040 Common Shares at an exercise price of CAD\$4.27 per Common Share that are immediately exercisable upon issuance and expire five years following the date of issuance. The closing of the offering occurred on December 18, 2025. We intend to use the net proceeds from this Offering for working capital and general corporate purposes.

Use of Proceeds

The following table shows the use of net proceeds as at September 30, 2025 from the financing activities discussed above:

	Use of proceeds (as disclosed)	Intended Amount	Actual Amount Used
April 2024 Pub. Offering	Working capital requirements and general corporate purposes	\$ 1,357,834	\$ 1,357,834
June 2024 Pub. Offering	Working capital requirements and general corporate purposes	2,312,918	2,312,918
August 2024 Direct Offering	Working capital requirements and general corporate purposes	1,293,589	1,293,589
November 2024 Direct Offering	Product and business development	1,528,750	1,528,750
November 2024 Direct Offering	Working capital requirements and general corporate purposes	1,528,750	1,528,750
November 2024 Private Placement	Working capital requirements and general corporate purposes	2,972,312	2,972,312
February 2025 Private Placement	Working capital requirements and general corporate purposes	2,842,584	2,203,481
July 2025 Public Offering	Working capital requirements and general corporate purposes	\$ 5,189,989	\$ —

c. SELECTED ANNUAL INFORMATION

The following selected financial information is taken from the Audited Consolidated Financial Statements for the years ended September 30, 2025, 2024 and 2023:

	September 30, 2025	September 30, 2024	September 30, 2023
Statement of Operations Data			
Revenue	\$ 4,942,626	\$ 1,504,328	\$ 1,234,450
Gross profit	1,738,048	486,502	(191,378)
Gross margin %	35.2 %	32.3 %	(15.5)%
Operating loss	(9,080,451)	(9,799,373)	(12,104,988)
Net loss	(9,626,694)	(7,437,759)	(9,306,360)
Loss per share - basic and diluted	\$ (15.78)	\$ (188.86)	\$ (478.85)
Financial Position data:			
Cash	\$ 6,686,429	\$ 256,828	\$ 5,407,009
Total assets	12,921,476	5,617,148	11,758,832
Total non-current liabilities	2,201,552	1,273,280	1,439,577
Total shareholders' equity	\$ 7,801,719	\$ 1,368,287	\$ 3,935,620

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

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

C. Research and Development, Patents and Licences, etc.

See *Item 5.A. – Operating Results – Results of Operations* for a description of our R&D activities during the last three fiscal years.

See *Item 4.B. – Business Overview – Proprietary Protection* for a listing of patents and product development in progress.

D. Trend Information

See *Item 5.A. – Operating Results – Results of Operations* and *Item 5.B. – Liquidity and Capital Resources* for trend information.

E. Critical Accounting 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 the Company expects to receive in exchange for the products or services. The Company's 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 based on the stand-alone selling price of each performance obligation. When the fair value cannot be determined based on when it was sold separately, the Company determines a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction by using either a market assessment, expected cost plus a margin or a residual approach.

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. Contracts based on task oriented, time and materials are measured based on agreed-upon hourly rates, direct labor hours expended, and material costs incurred and billed and recognized on a monthly basis. For product sales, revenue is recognized when the Company transfers control of the product to the customer. Control of the product transfers when the customer takes delivery of the product.

For performance obligations satisfied over time, the Company recognizes 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 the performance of DEFSEC 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, the Company 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 a loss is recognized in its entirety in the period it becomes known.

The Company 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, the Company allocates 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. When the fair value cannot be determined based on when it was sold separately, the Company determines a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction. The Company determines a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction by using either a market assessment, expected cost plus a margin or a residual approach.

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).

The Company accounts 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 to a price which reflects DEFSEC's stand-alone selling price of the additional promised goods or services. When the contract modification is not accounted for as a separate contract, the Company recognize an adjustment to revenue on a cumulative catch-up basis at the date of contract modification.

[Table of Contents](#)

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. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of contract liabilities.

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.

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.

Indication of 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 in Note 3 to the Audited Consolidated Financial Statements). The assessment of impairment or impairment reversal indicators is based on management's judgement of whether there are internal and external factors indicating impairment. Such factors including: market decline, adverse changes in technology, legal environment, or economic conditions, and evidence of obsolescence.

Share Based Payments

The Company has a Long-Term Incentive Plan ("LTIP") to grant stock options, restricted share units ("RSUs"), performance stock units ("PSUs"), deferred stock units ("DSUs"), and stock appreciation rights ("SARs") to directors, employees, and consultants. The Company measures share-based compensation at fair value for all share-based awards granted under the LTIP.

Equity-settled service award

The grant date fair value of equity-settled share-based awards is recognized as an expense on a straight-line basis over the requisite service period, with a corresponding increase in equity, over the vesting period of the awards. For stock options, the grant date fair value is determined using the Black-Scholes option model. For share units, the grant date fair value is based on DEFSEC's closing stock price. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. The amount recognized as an expense is adjusted for estimated forfeitures.

Equity-settled performance award

The accounting for equity-settled performance award is the same as above, except compensation expense is subject to periodic adjustment based on the achievement of establishment performance criteria.

Broker compensation options

As a result of the Canadian Offering on December 9, 2022, 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 16(c) of the Fiscal 2025 audited consolidated financial statements.

Warrant Liabilities

As a result of the Fiscal 2025 and Fiscal 2024 financings, we issued warrant liabilities. To measure the fair value of the warrant liabilities, we used the Black Scholes valuation model and exercised judgment in estimating the life, risk free rate, and volatility.

Inventory

DEFSEC's inventories may consist of raw materials, work-in-progress ("WIP") and finished goods. Inventories are measured at the lower of cost and net realizable value, with cost being determined using the weighted average cost method. The cost of WIP and finished goods includes the cost of raw materials, direct labour, and overhead. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. At each reporting period, management estimates the provision for obsolete and slow-moving inventory which may be reversed in subsequent periods, should the value subsequently be recovered.

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The lease obligation is measured at the present value of the lease payments that are not paid at the commencement date of the lease, discounted using its incremental borrowing rate at the inception of the lease. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if it is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in estimate of the amount expected to be payable under a residual value guarantee, or if the assessment of whether a purchase, extension, or termination option will be exercised. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying value of the right-of-use asset or, is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth the name of each of our directors and executive officers, as well as such individual's place of residence, position with us, principal business activities performed outside those with us and period of service as a director (if applicable).

Directors and Executive Officers

Name	Position With DEFSEC	Age	Principal Business Activity Outside DEFSEC	Director/Officer Since
David Luxton <i>Ontario, Canada</i>	Chairman and Director	74	N/A	October 24, 2019 ⁽¹⁾
Sean Homuth <i>Ontario, Canada</i>	President, CEO, and Director	47	N/A	June 12, 2023 ⁽²⁾
Jennifer Welsh <i>Ontario, Canada</i>	CFO and Chief Compliance Officer	44	N/A	August 24, 2024 ⁽³⁾
Harry Webster <i>Ontario, Canada</i>	Chief Operating Officer	48	N/A	February 15, 2024 ⁽⁴⁾
Paul Mangano <i>Maine, United States</i>	Director	68	CEO of OnPoint Systems, Inc. since August 2022	September 17, 2020
Paul Fortin <i>Ontario, Canada</i>	Director	58	Principal Fortin Consulting Group and Independent Advisor	September 17, 2020
Rick Hillier <i>Ontario, Canada</i>	Director	70	Consultant	December 6, 2023
James Yersh <i>Ontario, Canada</i>	Director	52	President at PointClickCare	January 6, 2025 ⁽⁵⁾

Notes:

- (1) Date on which Mr. Luxton became a director of DEFSEC.
- (2) Mr. Homuth became CEO of DEFSEC on November 27, 2023. From June 12, 2023 to November 26, 2023, Mr. McLeod previously served as President and CEO of DEFSEC.
- (3) From August 24, 2024 to January 6, 2025, Ms. Welsh was the Audit Committee Chair. On January 6, 2025, she was appointed CFO and Chief Compliance Officer, effective February 3, 2025.
- (4) Date on which Mr. Webster became Chief Operating Officer.
- (5) Date on which Mr. Yersh became a director and the Audit Committee Chair.

The following are brief biographies of our directors and executive officers.

David Luxton, Chairman and Director

Mr. Luxton is a former Canadian infantry officer, and former senior official with the Canadian and British governments. In 1990 he founded Simunition, a business that develops and sells simulated munitions for realistic close quarters combat training for military and law enforcement. Between 2003 and 2009, he led the expansion of Allen-Vanguard Corporation, a company in the IED countermeasures business, from approximately \$3,000,000 to a run rate of approximately \$300,000,000 in annual revenues, then served as Chairman from 2010 to October 2021. Between 2015 and 2018, he was the Executive Chairman of United Tactical Systems, LLC, a company offering less-lethal products for law enforcement, military and personal defense. From 2003 to the date of this Annual Report, he has been President & Owner of DEFSEC Corp., a company that specializes in strategic transactions in the defense and security industry. Furthermore, from 2016 to 2020, he was a Senior Strategic Advisor to the University of Ottawa. Since 2019, he has been the Chairman of DEFSEC (in January 2025, his title was changed to Chairman). He is a graduate of the University of Oxford SMDP postgraduate program. He entered into a confidentiality and non-disclosure agreement through his consulting agreement with us on October 1, 2019.

Sean Homuth, President and Chief Executive Officer, Director

Mr. Homuth is a senior executive with almost 25 years of experience working with both Canadian and U.S. public companies across a broad range of industries, many with global operations. He has extensive experience with a variety of financing (equity, debt, royalty) and M&A transactions. Since 2008, he has spent the majority of his time in various C-level executive roles with emerging companies. These include having served as CFO of Orezone Gold Corporation, CFO and ultimately CEO of Northbud, and Chief Strategy Officer for The OpenNMS Group. Mr. Homuth is a Chartered Professional Accountant (CPA, CA Ontario) and a Certified Public Accountant (Illinois) and was named to Ottawa Business Journal's Forty Under 40 in 2011.

Jennifer Welsh – Chief Financial Officer and Chief Compliance Officer

Ms. Welsh has more than 20 years of experience, including 18+ years with Canadian public companies. She was VP Finance at Indiva for SNDL Inc. – a Nasdaq listed company – and previously the founding CFO of Indiva Limited, helping it grow into Canada's leading cannabis edibles producer. There she led key financing transactions, brand licensing, and supported manufacturing operations. Before Indiva, she was Corporate Controller of a TSX-listed mining company. Ms. Welsh is a Chartered Professional Accountant (CPA, CA Ontario), holds a B.Comm. from Carleton University in Ottawa and was named to Ottawa Business Journal's Forty Under 40 in 2020.

Harry Webster – Chief Operating Officer

Mr. Webster is an experienced aerospace and defence leader. He most recently served as Director of Programs at DRS, overseeing all engineering development and manufacturing programs. With over 20 years of experience in roles spanning engineering development to executive leadership, his career has been built on leading organizations to achieve great business outcomes in the execution of complex engineering projects for platforms such as Canadarm3 at MDA and the Canadian CH-148 Maritime Helicopter Program at General Dynamics Mission Systems. He holds advanced degrees in Business Administration and Engineering, and licenses as Professional Engineer and Project Management Professional.

Paul Mangano - Director

Prior to being invited to join our Board, Mr. Mangano founded and owned Surculus Advisors LLC since 2016, a boutique management consulting firm providing advice, leadership, specialized expertise and transaction consultation services to the industrial and high-tech sectors including aerospace, defense and security. Further, since August 2022, he is the CEO of Onpoint Systems, Inc. From August 2020 to April 2022, he was the General Manager of Steiner Optics Inc., a division of Beretta. Prior to forming Surculus Advisors LLC, from 2006 to 2015, he served as the President of L-3 Communication's Public Safety & Sporting business unit. Mr. Mangano graduated with a BA in Economics from Harvard University and an MBA in High Technology from Northeastern University.

Paul Fortin - Director

Prior to being invited to join our Board, Paul Fortin was the director of international business development at Borden Ladner Gervais LLP, a full-service law firm, from 2011 to 2019. Since March 2020, he has been the principal of the Fortin Consulting Group and is an independent advisor within the defense and security industry. Mr. Fortin graduated from Carleton University with a Bachelor's degree in Political Science and from Algonquin College with a specialization in Product Marketing Management.

Rick Hillier - Director

General (Retired) Rick Hillier served over 35 years in the Canadian Armed Forces, culminating his career as the Chief of Defence Staff from 2005-2008. His leadership, geopolitical knowledge and experience on multinational operations, at the tactical, operational and strategic levels, prepares him to help position the Company for success and navigate the Company through its next stages of growth.

James Yersh - Director

Mr. Yersh has over two decades of experience holding senior executive-level roles across finance, administration, and go-to-market functions at SaaS-oriented and technology companies. Mr. Yersh is currently the President, at PointClickCare where he oversees the complete customer journey, with a mission to drive tighter integration and seamless customer experiences by spearheading various aspects of the Senior Care market, including customer care, customer success, implementation, operations, and sales. Prior to this role, Mr. Yersh was previously the Chief Revenue Officer, Senior Care and CFO of PointClickCare. Prior to joining PointClickCare, Mr. Yersh also served as the CFO for notable companies in the technology space including Mitel, Blackberry, KORE Wireless and held a variety of senior finance roles at other technology companies including eSentire, Cognos Incorporated, and Deloitte. Notably, while serving as CFO of BlackBerry, he supported the organization's transition to a software-based product suite as a public company. Mr. Yersh also previously served as a Board member and the Chair of the Audit Committee for Indiva who was listed on the TSXV.

B. Compensation

Compensation for Fiscal 2025

The aggregate amount of compensation paid during the year ended September 30, 2025 (including accrued amounts at September 30, 2025), directly and indirectly, including directors' fees, to our named executive officers ("NEOs") and directors in their capacity as such, was \$2.9 million (Fiscal 2024: \$1.5 million).

This discussion describes our compensation program for each person who acted as President and CEO, CFO and the three most highly-compensated executive officers (or three most highly-compensated individuals acting in a similar capacity), other than the CEO and the CFO, whose total compensation was more than \$150,000 in our last fiscal year and who was performing a policy-making function in respect of the Company (each a "NEO" and collectively the "NEOs"). This section addresses our philosophy and objectives and provides a review of the process that the Board follows in deciding how to compensate the NEOs. This section also provides discussion and analysis of the Board's specific decisions about the compensation of the NEOs for Fiscal 2025.

We had four (4) NEOs during the Fiscal 2025, namely: David Luxton, Chairman and Director, Sean Homuth, President & CEO, Jennifer Welsh, CFO and Chief Compliance Officer and Harry Webster, Chief Operating Officer.

Compensation Philosophy and Objectives

Our current executive compensation program is designed to provide short and long-term rewards to our executives that are consistent with individual and corporate performance and their contribution to our short and long-term objectives. Our objectives with respect to compensation of executive officers are to provide compensation levels necessary to attract and retain high quality executives, and to motivate key executives to contribute to our interests. These objectives are to be met by the principal components of our executive compensation program, which has been focused on a combination of base compensation, cash bonus remuneration, and long-term incentives in the form of stock options or other security-based compensation.

The executive compensation program adopted by us and applied to our executive officers is designed to:

- (a) attract and retain qualified and experienced executives who will contribute to our growth and success;
- (b) ensure that the compensation of our executive officers provides a competitive base compensation package and a strong link between corporate performance and compensation; and
- (c) motivate executive officers to enhance long-term shareholder value, with current compensation being weighted toward at-risk long-term incentives in the form of options and other security-based incentives so as to foster alignment with the interests of our shareholders and stakeholders.

We do not believe that our compensation programs encourage excessive or inappropriate risk taking because: (i) our employees receive both fixed and variable compensation, and the fixed portion (salary) provides a steady income regardless of Common Share value, which allows employees to focus on our business; and (ii) our LTIP encourages a long-term perspective due to the vesting provisions, which is generally at least over two (2) years. We believe that our compensation program is appropriately structured and balanced to motivate our employees and reward the achievement of annual performance goals, as well as the achievement of long-term growth in shareholder value.

Compensation Governance and Process

We have relied on the experience of our Board in setting our executive compensation philosophy and appropriate levels of compensation for our NEOs.

Today, we do not have a separate Compensation Committee. Our Board assumes responsibility as a whole for the oversight over the compensation of directors and executives, including:

- review and approval our remuneration and compensation policies, including short and long-term incentive compensation plans and equity-based plans, bonus plans, pension plans (if any), our LTIP and grants, and benefit plans;
- sole authority to retain and terminate any compensation consultant to assist in the evaluation of director compensation, including sole authority to approve fees and other terms of the retention;
- review and approve at least annually all compensation arrangements for our senior executives;
- review and approve at least annually all compensation arrangements for our directors; and
- review the executive compensation sections disclosed in this Annual Report and our management information circular distributed to shareholders in respect of our annual, and any special, meetings of shareholders.

While David Luxton works with our Board in making recommendations regarding our overall compensation policies and plan as well as specific level of compensation for the other NEOs, they are recused from any Board deliberations and decisions in respect to their own personal compensation. Their respective current fixed compensation was set prior to going public in Canada.

Elements of Compensation

Our executive compensation program consists of three principal components: base salaries, annual incentive compensation and benefits, and long-term compensation.

Base Salaries

Base salaries are intended to reflect an executive officer's position within our corporate structure, his or her years of experience and level of responsibility, and salary norms in the sector and general marketplace. Further, as an early-stage company, we believe we have set the base salaries for the NEOs below market rates, to conserve cash in return for higher stock-based compensation awards. Accordingly, decisions with respect to base salary levels for executive officers are not based on objective identifiable performance measures but for the most part are determined by reference to competitive market information for similar roles and levels of responsibility, coupled with subjective performance factors such as leadership, commitment, accountability, industry experience, and contributions. Our view is that a competitive base salary is a necessary element for retaining qualified executive officers, as it creates a meaningful incentive for individuals to remain with us and not be unreasonably susceptible to recruiting efforts by our competitors.

In determining the base salary compensation of each NEO, the Board considers: (i) recruiting and retaining executives critical to our success and the enhancement of shareholder value; (ii) providing fair and competitive compensation; (iii) balancing the interests of management and our shareholders; and (iv) rewarding performance, both on an individual basis and with respect to operations in general.

Annual Incentive Compensation and Benefits

Our Board will consider whether it is appropriate and in our best interests to award discretionary cash bonus to the NEOs for the most recently completed fiscal year and, if so, the amount. Discretionary cash bonuses are awarded to recognize the achievement of annual corporate objectives and to recognize contributions that enhance our intrinsic value.

[Table of Contents](#)

The following is a summary of the maximum annual incentive compensation as a percentage of base salary / annual consulting fee, for the NEOs based on their respective employment / consulting agreements, at the sole discretion of the Board:

Position	Maximum Annual Incentive Compensation (Percentage of Base Salary)
Chairman	75 %
President and CEO	75 %
CFO, COO	50 % ¹

¹ Prior to September 30, 2024, the COO's maximum annual incentive compensation was 40%.

We did not establish explicit goals / milestones for our NEOs for Fiscal 2024 for the annual cash incentive compensation. For Fiscal 2025, the following corporate goals were established:

- Maintain our Nasdaq listing by regaining compliance with Minimum Bid Price Requirement – Achieved.
- Raise additional US\$5 million (excluding November 2024 financings) – Overachieved (raised approx. US\$7.6 million).
- Grow government contracts to \$6 million annualized run rate by end of fiscal year – Overachieved subsequent to year-end (\$8.3 million as of February 2026) but related to work that was underway in fiscal year.
- Establish American ARWEN® manufacturing and achieve first revenue on 40mm ammunition – Partially achieved.
- Increase ARWEN® revenue by 50% in second half of fiscal 2025 – Achieved.
- Achieve first revenue on a subscription basis for DEFSEC Lightning™ – Achieved subsequent to year-end but related to work that was underway in fiscal year.
- Completion of TRL5 prototype of networked version of SPOC for BLDS – Achieved.
- First revenue on new prototypes for BLDS – Achieved.
- Achieve PARA SHOT™ classification with ATF to enable civilian sales in the United States – Removed in favour of including a 2026 goal that more specifically represents the steps needed to sell to the civilian market in the United States.
- Achieve over \$250,000 in PARA SHOT™ revenue in Fiscal 2025 – Not achieved.

The above goals are equally weighted to determine the percentage of target bonus up to 100%. The base goals have an annualized revenue run rate of \$7 million, if an annualized run rate of \$10 million or greater is achieved the base target is increased to 125%.

Management and the Board of Directors are in the process of establishing corporate goals for Fiscal 2026.

Long-Term Compensation

The long-term component of compensation for our NEOs, consists of (i) stock options (“Options”), (ii) restricted stock units (“RSUs”), (iii) deferred share units (“DSUs”), (iv) stock appreciation rights (“SARs”) and/or (v) performance stock units (“PSUs”) (collectively the “Security-Based Compensation Awards”). This component of compensation is intended to reinforce management’s commitment to long-term improvements in our performance.

Our Board believes that incentive compensation in the form of Security-Based Compensation Awards which vest over time, is and has been beneficial and necessary to attract and retain NEOs. Furthermore, the Board believes Security-Based Compensation Awards are an effective long-term incentive vehicle because they are directly tied to our share price over a longer period and therefore motivates NEOs to deliver sustained long-term performance and increase shareholder value and have a time horizon that aligns with long-term corporate goals. As such, our Board does not grant Security-Based Compensation Awards in excessively dilutive numbers or at exercise prices not reflective of the Company’s underlying value.

In determining individual equity-based grants, the Board considers the experience, responsibilities and performance of each recipient of an award under the LTIP. Previous grants are also taken into consideration during the grant process.

Benefits Plans

The NEOs are entitled to life insurance, health and dental benefits.

We do not maintain a pension plan for the NEOs; however as of October 2025, NEOs were also entitled to RRSP matching up to 3% of their annual gross salary.

External Compensation Consultants

In determining the base salaries for the NEOs, we considered comparable market base salaries, based on information provided by an outside executive search consulting firm and then set the base salaries for the NEOs at the lower end of the range.

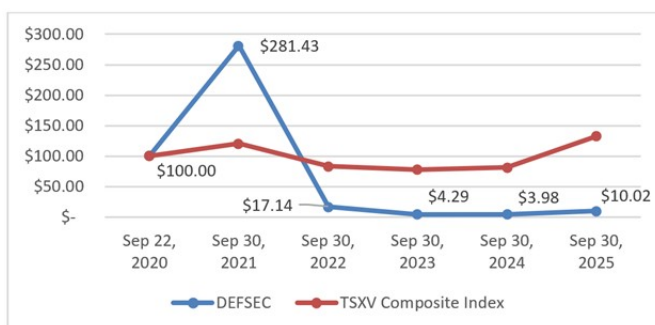
Assessment of Risks Associated with Our Compensation Policies and Practices

Our Board has assessed the compensation plans and programs for our executive officers to ensure alignment with our business plan and to evaluate the potential risks associated with those plans and programs. Our Board has concluded that the compensation policies and practices do not create any risks that are reasonably likely to have a material adverse effect on the Company.

Our Board considers the risks associated with executive compensation and corporate incentive plans when designing and reviewing such plans and programs. We have not adopted a policy restricting our NEOs or directors from purchasing financial instruments that are designated to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by its NEOs or directors. To our knowledge, none of the NEOs or directors has purchased such financial instruments.

Performance Graph

The following graph illustrates the cumulative return to our shareholders based on a \$100 investment in the Common Shares from September 22, 2020, the date we went public in Canada, to September 30, 2025, as compared to the cumulative total return on the Standard & Poor's / TSXV Composite Index for the same period, assuming the reinvestment of cash distributions and/or dividends:



The trend in the above performance graph does not correlate to the trend of the compensation paid to the NEOs. As described under “Elements of Compensation”, based salaries reflect each NEO’s primary duties and responsibilities and are set at levels based on responsibility, experience and expertise as well as subjective factors such as leadership. We believe that management must be compensated a minimum base salary for the value of the services provided, irrespective of our Common Share price performance. Pursuant to our LTIP, we have granted Options, RSUs, and PSUs to our NEOs, each form a significant portion of compensation, and therefore the total compensation for the NEOs is directly affected by decreases or increases in the price of our Common Shares as the value of such Options, RSUs, and PSUs changes as our Common Share price changes.

Summary Compensation Table

The following table provides information concerning the total compensation paid to all individuals who were NEOs in the years ended September 30, 2025, 2024, and 2023:

Name	Fiscal Year	Non-equity incentive plan compensation						All Other Compensation	Total Compensation
		Fee / Salary	Share-based Awards	Option-based Awards ⁽¹⁾	Annual Incentive Plans ⁽⁸⁾	Long-term Incentive Plans	Pension Value ⁽²⁾		
David Luxton ⁽³⁾⁽¹²⁾	2025	\$ 240,000	\$ —	\$ —	\$ 100,000	\$ —	\$ —	\$ —	\$ 340,000
Chairman and	2024	360,000	—	—	—	—	—	—	360,000
Director	2023	315,000	—	178,500	—	—	—	—	493,500
Sean Homuth ⁽⁴⁾⁽¹²⁾	2025	360,010	—	—	340,000	—	—	930	700,940
President & CEO and	2024	350,769	—	—	—	—	—	2,000	352,769
Director	2023	92,308	—	140,250	—	—	—	2,000	234,558
Jennifer Welsh ⁽¹¹⁾⁽¹²⁾	2025	194,290	—	—	—	—	—	700	194,990
CFO and	2024	—	—	—	—	—	—	—	—
Chief Compliance Officer	2023	—	—	—	—	—	—	—	—
Harry Webster ⁽⁷⁾⁽¹²⁾	2025	254,990	—	—	130,000	—	—	820	385,810
Chief Operating Officer	2024	260,962	—	—	—	—	—	18,000	278,962
	2023	23,077	—	—	—	—	—	—	23,077
Jeffrey MacLeod ⁽⁵⁾	2025	—	—	—	—	—	—	—	—
Former President & CEO	2024	160,000	—	—	—	—	—	—	160,000
and Former Director	2023	160,000	—	25,500	—	—	—	—	185,500
Kris Denis ⁽⁶⁾	2025	88,250	—	—	—	—	—	—	88,250
Interim CFO and	2024	167,308	—	—	—	—	—	3,000	170,308
Chief Compliance Officer	2023	—	—	25,500	—	—	—	—	25,500
Steven Archambault ⁽⁹⁾	2025	—	—	—	—	—	—	—	—
CFO and	2024	—	—	—	—	—	—	—	—
VP, Corporate Services & Compliance	2023	111,462	—	—	—	—	—	127,930	239,392
Richard Bowes ⁽¹⁰⁾	2025	—	—	—	—	—	—	—	—
VP, Operations of	2024	—	—	—	—	—	—	—	—
Digitization & Tactical Products	2023	\$ 206,471	\$ —	\$ —	\$ 130,000	\$ —	\$ —	\$ —	\$ 336,471

- (1) Represents the grant value of the option awards, using the Black-Scholes option model. The Black-Scholes option model was selected by us as it is the most widely adopted and used option-valuation method.
- (2) The Company does not have a retirement plan. Starting in October 2025 the Company implemented a Registered Retirement Savings Plan (“RRSP”), which matches executive contributions on a one for one basis up to 3% of gross pay.
- (3) Effective October 1, 2019, we entered into a professional services agreement with DEFSEC Corporation, a private company owned by Mr. Luxton. The compensation payable to Mr. Luxton is paid to his private company, DEFSEC Corporation.
- (4) Mr. Homuth served as CFO of DEFSEC from June 12, 2023 to November 26, 2023. On November 27, 2023, Mr. Homuth was appointed as President and CEO of DEFSEC. Mr. Homuth, who is also a member of our Board, does not receive any additional compensation for his service as a director, and his compensation is solely in respect of his role as President and CEO of DEFSEC.
- (5) Mr. MacLeod retired from his positions as President, CEO and Director of DEFSEC on October 31, 2023. As part of his departure, the Company is continuing to pay his base salary and provide benefits for a period of one year with no incentive pay. While this arrangement was verbally agreed to, it continues to be subject to formal agreement with Mr. Macleod.
- (6) Mr. Denis served as the Company’s Corporate Controller from June 26, 2023 to November 26, 2023. On November 27, 2023, Mr. Denis was appointed as Interim CFO and Chief Compliance Officer of KWESST. Mr. Denis’ annual salary increased to CAD \$175K effective November, 27, 2023. Mr. Denis ceased his role as Interim CFO and Chief Compliance Officer upon the appointment of Ms. Welsh.
- (7) Mr. Webster served as the Company’s General Manager from August 28, 2023 to February 14, 2024. On February 15, 2024, Mr. Webster was appointed as Chief Operating Officer of KWESST. Mr. Webster’s annual salary increased to CAD \$260K effective February 15, 2024.

[Table of Contents](#)

(8) Following September 30, 2024, the Board of Directors approved special bonuses for the Named Executive Officers in recognition of three major achievements completed in November 2024: raising more than USD \$5 million, securing an extension to remedy the NASDAQ bid-price deficiency, and obtaining accepted conditional offers for all Land C4ISR positions. Specifically, the Board awarded:

- Mr. Luxton: A bonus of \$270,000; however, he voluntarily reduced this amount by \$100,000 and additionally forfeited \$70,000 to increase the CEO's bonus in recognition of his exceptional contribution and accomplishments.
- Mr. Homuth (CEO): A total bonus of \$340,000, comprising a 75% bonus target of \$270,000 plus the \$70,000 redirected by Mr. Luxton.
- Mr. Webster: \$130,000, representing a 50% bonus target.
- Mr. Denis: \$43,750, representing 25% of his annual salary.

These bonuses were approved on November 29, 2024, and paid out in December 2024.

(9) Mr. Archambault joined as our CFO on a part-time basis on October 1, 2020, and transitioned to full-time on April 1, 2021. He also took on the role of VP, Corporate Services and Compliance in October 2021 and Interim Corporate Secretary in May 2022. He resigned from his positions with KWESST on June 12, 2023.

(10) From January 25, 2021 to April 12, 2021, the Company entered into a consulting agreement with Mr. Bowes' private company, Cardinal Defence. Effectively April 12, 2022 Mr. Bowes joined KWESST as a full-time employee until February 28, 2023. From March 1, 2023 to November 15, 2023, the Company entered into a consulting agreement once again with Mr. Bowes' private company, Cardinal Defence.

(11) Ms. Welsh was appointed CFO and Chief Compliance Officer on January 6, 2025, effective February 3, 2025.

(12) In December 2025, the Board approved and paid out the following cash bonuses for performance in Fiscal 2025:

- Mr. Luxton: a total bonus of \$180,000
- Mr. Homuth: a total bonus of \$270,000
- Ms. Welsh: a total bonus of \$142,500
- Mr. Webster: a total bonus of \$130,000

These bonuses were approved and paid out in December 2025.

Employment and Consulting Agreements

The following summarizes the key salient terms of the employment agreements between us and our NEOs in force as of September 30, 2025:

David Luxton

On October 1, 2019, we entered into a professional services agreement with DEFSEC, a private holding company owned by Mr. Luxton, in which he agreed to serve as our Chairman for an annual fee of \$120,000 per year and raising to \$150,000 per year upon a going public transaction. This agreement was amended effective August 1, 2020, whereby the annual fee was adjusted to \$180,000 per year. Mr. Luxton is entitled to an annual incentive bonus up to 200% of his annual fee at the Board's sole discretion. This agreement expired on December 31, 2022. Subsequent to December 31, 2022, Mr. Luxton's compensation was amended to \$360,000 per year with entitlement to an annual incentive bonus of up to 75% effective January 1, 2023. Mr. Luxton voluntarily reduced his compensation for the 2025 calendar year to \$240,000. We have the right to terminate his consulting agreement with twelve (12) month notice period, subject to termination benefits (see Item 6.B. – Compensation – Outstanding Equity Awards at September 30, 2024 – Potential Termination and Change of Control Benefits). The notice period increases to 18 months in the event of a change of control. On December 12, 2025, the Board of Directors set Mr. Luxton's compensation for 2026 at \$385,000 and the annual incentive bonus was increased up to 80% of his annual fee.

Sean Homuth

On July 31, 2023, we entered into an amended and restated employment agreement, with an effective date of June 12, 2023, for Mr. Homuth to serve as Chief Financial Officer and Chief Compliance Officer. Mr. Homuth received an annual base salary of CAD\$300,000 with an annual incentive bonus of up to 50% of his annual base salary at the Board's sole discretion and four weeks of vacation per year. Mr. Homuth also received an initial stock option grant with amount determined at the Board's discretion and vesting in accordance with the terms of the Company's LTIP plan. On November 27, 2023, Mr. Homuth was appointed President and CEO and his employment agreement was amended and restated (the "Homuth Agreement") and his salary was increased to \$360,000, the annual incentive bonus was increased up to 75% of his annual salary and his employment may be terminated upon payment of a lump sum equal to 12 months salary plus accrued bonus, this lump sum is increased by one additional month for completed or partially completed year of service to a maximum of 24 months and in the event of a change in control, the foregoing is changed from 24 months to 36 months. On December 12, 2025, the Board of Directors set Mr. Homuth's base salary for 2026 at \$420,000 and the annual incentive bonus was increased up to 80% of his annual salary.

Jennifer Welsh

On February 3, 2025, we entered into an employment for Ms. Welsh to serve as our Chief Financial Officer and Chief Compliance Officer. Ms. Welsh's base salary is \$285,000, the annual incentive bonus of up to 50% of her annual salary, her employment may be terminated upon payment of a lump sum equal to 6 months of base salary plus accrued bonus and vacation and all security-based compensation held become vested if terminated prior to the first anniversary from the February 3, 2025, contract date. This lump sum is increased by one month per completed or partially completed year of service to a maximum of 12 months and in the event of a change in control, her employment may be terminated upon payment of a lump sum equal to 12 months of base salary plus full target bonus and accrued vacation. The lump sum is increased by two months per completed or partially completed year of service up to a maximum of 24 months. On December 12, 2025, the Board of Directors set Ms. Welsh's base salary for 2026 at \$320,000.

Harry Webster

On August 28, 2023, we entered into a full-time employment agreement with Mr. Webster to serve as our General Manager. On February 15, 2024, Mr. Webster was appointed COO and he entered into a new employment agreement (the "Webster Agreement"). Mr. Webster's salary was increased to \$260,000, the annual incentive bonus remained up to 40% of his annual salary (which was increased to 50% subsequent to September 30, 2024), his employment may be terminated upon payment of a lump sum equal to 6 months of base salary plus accrued bonus and vacation and all security-based compensation held become vested. This lump sum is increased by one month per completed or partially completed year of service to a maximum of 12 months and in the event of a change in control, her employment may be terminated upon payment of a lump sum equal to 12 months of base salary plus full target bonus and accrued vacation. The lump sum is increased by two months per completed or partially completed year of service up to a maximum of 24 months. On December 12, 2025, the Board of Directors set Mr. Webster's base salary for 2026 at \$295,000.

Outstanding Equity Awards at September 30, 2025

The following table sets forth information concerning all the outstanding equity awards held by each NEO as at September 30, 2025:

Name	Option-based awards				Share-based awards		
	Number of securities underlying unexercised options ⁽⁶⁾	Option exercise price ⁽⁶⁾	Option expiration date	Value of unexercised in-the-money options ⁽¹⁾	Number of shares or units of shares that have not vested	Market or payout value of share-based awards that have not vested ⁽²⁾	Market or payout value of vested share-based awards not paid out or distributed ⁽²⁾
David Luxton ⁽³⁾	6	\$ 756.00	2026-07-02	\$ —	\$ —	\$ —	\$ 29
	333	535.50	2026-08-16	—	—	—	1,635
Sean Homuth ⁽⁴⁾	261	535.50	2026-08-16	—	—	—	1,282
Harry Webster	—	—	—	—	—	—	—
Jennifer Welsh ⁽⁵⁾	—	—	—	—	—	—	—
	<u>600</u>			<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 2,946</u>

(1) Based on the difference between the exercise price of the Option and the closing price of the Common Shares on the TSXV on September 30, 2025.

- (2) Based on the closing price of the Common Shares on the TSXV on September 30, 2025.
- (3) The grants were made to Mr. Luxton's private company, DEFSEC Corporation. His 2021 Option grant vest over two (2) years and his 2023 Option grant vest over two (2) years.
- (4) Mr. Homuth served as CFO of KWESST from June 12, 2023 to November 26, 2023. On November 27, 2023, Mr. Homuth was appointed as President and CEO of DEFSEC. His 2023 Option grant vest over two (2) years.
- (5) Ms. Welsh was appointed CFO and Chief Compliance Officer on January 6, 2025, effective February 3, 2025.
- (6) Amounts have been adjusted to factor in the 10:1 and 21:1 stock splits completed in fiscal 2025.

There was no exercise of stock options during Fiscal 2025.

Value Vested or Earned During the Year

There were no option-based awards or share-based awards which vested during the fiscal year ended September 30, 2025.

Potential Termination and Change of Control Benefits

All outstanding equity compensation is forfeited / cancelled if we terminate a NEO's employment / consulting agreement for cause. Further, in the event a NEO voluntarily resigns from his employment / consulting with us, any unpaid annual incentive and unvested equity compensation are forfeited in accordance with our LTIP.

We have agreements with the NEOs that set out the terms of their employment / consulting and what they are entitled to in connection with a termination of employment or change of control. These agreements include non-solicitation, confidentiality, and ownership of intellectual property provisions to protect our interests.

[Table of Contents](#)

The table below sets out the amount that would have been payable to each NEO that was employed by the Company on September 30, 2025, if had there been a change of control of the Company resulting in termination on September 30, 2025:

	Notice Period (months)	Termination Without Cause (pre- Change in Control)	Termination Without Cause in Connection with Change in Control
David Luxton	12		
Base Fee		\$ 420,000	\$ 630,000
Value of unvested options		1,664	1,664
Value of unvested RSUs		—	—
Value of vested RSUs not yet issued		—	—
Total		421,664	631,664
Sean Homuth⁽¹⁾	12		
Base Fee		\$ 730,385	\$ 1,190,769
Value of unvested options		1,282	1,282
Value of unvested RSUs		—	—
Value of vested RSUs not yet issued		—	—
Total		731,666	1,192,051
Jennifer Welsh⁽²⁾	6		
Base Fee		\$ 298,702	\$ 427,500
Value of unvested options		—	—
Value of unvested RSUs		—	—
Value of vested RSUs not yet issued		—	—
Total		298,702	427,500
Harry Webster⁽³⁾	6		
Base Fee		\$ 320,000	\$ 510,000
Value of unvested options		—	—
Value of unvested RSUs		—	—
Value of vested RSUs not yet issued		—	—
Total		\$ 320,000	\$ 510,000

(1) Mr. Homuth served as CFO of DEFSEC from May 30, 2023 to November 26, 2023. On November 27, 2023, Mr. Homuth was appointed as President and CEO of DEFSEC.

(2) Ms. Welsh was appointed CFO and Chief Compliance Officer on January 6, 2025, effective February 3, 2025.

(3) Mr. Webster served as the Company's General Manager from August 28, 2023 to February 14, 2024. On February 15, 2024, Mr. Webster was appointed as Chief Operating Officer of DEFSEC.

A change of control is commonly defined in each of the respective agreements as:

- a) the sale of all or substantially all of our outstanding Common Shares for cash or securities of an entity not managed by our management team and that are determined by our Board to be liquid for all of our shareholders ("Liquid Unrelated Issuer");
- b) a merger, amalgamation, arrangement or other similar transaction involving us where the holders of our Common Shares receive cash or securities of a Liquid Unrelated Issuer, but do not immediately thereafter own securities of the successor corporation which entitle them to cash more than 50% of the votes attaching to all shares in the capital of the successor corporation;
- c) the sale of all or substantially all of our assets followed by a liquidating distribution to the holders of our Common Shares of cash or securities of a Liquid Unrelated Issuer;

provided that our Board shall have the right, in its absolute discretion, to deem any transaction not enumerated above to be a change of control. For greater clarity, a sale or transfer of founders shares between related parties, and/or an initial going public transaction of any kind shall not constitute a change of control.

Compensation of Independent Directors

In July 2023, our Board approved the following cash compensation for the independent directors retroactive October 1, 2022:

- \$10,000 per quarter; and
- \$2,500 per quarter for the Chair of the Audit Committee.

Prior to December 2020, we made no cash compensation to the directors.

The following table sets out the total compensation for our independent directors who served at any time during the year ended September 30, 2025.

Name	Fees Earned	Stock Awards ⁽¹⁾	Option Awards ⁽²⁾	Non-equity Incentive Plan Compensation	Pension Value ⁽³⁾	All Other Compensation	Total Compensation
James Yersh ⁽⁴⁾	\$ 36,575	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 36,575
Jennifer Welsh ⁽⁵⁾	13,424	—	—	—	—	—	13,424
Paul Fortin	40,000	—	—	—	—	—	40,000
Paul Mangano	40,000	—	—	—	—	—	40,000
Rick Hillier	\$ 120,000	—	—	—	—	—	\$ 120,000

(1) Represents the grant value of RSU awards, based on the closing price of the Common Shares on the TSXV on the grant date.

(2) Represents the grant value of the option awards, using the Black-Scholes option model. The Black-Scholes option model was selected by the Company as it is the most widely adopted and used option-valuation method. There were no stock option grants issued in Fiscal 2025.

(3) The Company does not have a pension plan.

(4) James Yersh was appointed Audit Committee Chairman on January 6, 2025.

(5) Jennifer Welsh joined the Board on August 26, 2024 and was appointed Audit Committee Chairman. She resigned as Audit Committee Chair and Director January 6, 2025 prior to moving into the CFO and Chief Compliance Officer role on February 3, 2025.

Outstanding Equity Awards at September 30, 2025

There were no stock options granted to the independent directors in Fiscal 2025.

The following table sets forth information concerning all the outstanding equity awards held by each of our independent directors as at September 30, 2025.

Name	Option-based awards				Share-based awards		
	Number of securities underlying unexercised options ⁽³⁾	Option exercise price ⁽³⁾	Option expiration date	Value of unexercised in-the-money options ⁽¹⁾	Number of shares or units of shares that have not vested	Market or payout value of share-based awards that have not vested ⁽²⁾	Market or payout value of vested share-based awards not paid out or distributed ⁽²⁾
James Yersh	—	\$ —	—	\$ —	—	\$ —	\$ —
Paul Fortin	17	756.00	2025-12-15	—	—	—	—
	47	535.50	2026-08-16	—	—	—	—
Paul Mangano	17	756.00	2025-12-15	—	—	—	—
	47	535.50	2026-08-16	—	—	—	—
Rick Hillier	17	756.00	2025-12-15	—	—	—	—
	47	535.50	2026-08-16	—	—	—	—
	192	\$ —		\$ —	—	\$ —	\$ —

(1) Based on the difference between the exercise price of the Option and the closing price of the Common Shares on the TSXV on September 30, 2025.

- (2) Based on the closing price of the Common Shares on the TSXV on September 30, 2025.
- (3) Amounts have been adjusted to factor in the 10:1 and 21:1 stock splits completed in fiscal 2025.

There was no exercise of options during Fiscal 2025.

Value Vested or Earned During the Year

For the fiscal year ended September 30, 2025 no option-based awards and share-based awards or non-equity incentive plan compensation vested or were earned during the year.

Equity Compensation Plans

On February 10, 2021, our Board adopted a new LTIP, which was approved by our shareholders on March 31, 2021, and on April 9, 2021, by the TSXV. Our LTIP was subsequently amended to conform with the new TSXV policy issued on November 24, 2021, in relation to security-based compensation. Our shareholders approved this amended LTIP on March 31, 2022, which was subsequently approved by the TSXV on April 14, 2022.

The maximum number of Common Shares issuable under our LTIP for stock options is 10% of our issued and outstanding Common Shares, subject to adjustment or increase pursuant to the terms of the LTIP. Any stock options that have been cancelled, repurchased, expired, or exercised will again be available under the LTIP. At September 30, 2025, we had 995 outstanding stock options, leaving 138,637 stock options available for future grants.

Additionally, the maximum number of Common Shares issuable under our LTIP in respect of RSUs, DSUs, SARs, and PSUs (collectively “Share Units”) is 1,940 of which 55 Share Units are available for future grant as at September 30, 2025.

The following is a summary of the salient terms of the equity-based awards available under our amended LTIP. For a more fulsome disclosure of our LTIP, a copy of our amended LTIP is available on SEDAR+ website at www.sedarplus.ca.

Stock Options

Key Employees, Directors, Consultants and Persons performing Investor Relations Services (as such terms are defined in the LTIP) are eligible to receive grants of stock options to acquire Common Shares at the time of employment or contract, if applicable, and thereafter as determined by the Board.

Restricted Share Units

Key Employees, Directors and Consultants, are eligible to receive grants of RSUs, entitling the holder to receive one Common Share for each RSU, subject to restrictions as the Board may, in its sole discretion, establish in the applicable award agreement. The Board believes the granting of RSUs creates long-term incentive, a sense of ownership and an alignment of the recipients’ interests with those of our shareholders and stakeholders. The granting of RSUs is intended to reward those executives who are responsible for our management and growth and to encourage such executives to develop a long-term vision for us to operate in a manner to maximize shareholder value. By using vesting periods for RSUs in addition to other restrictions, this compensation element is also designed to support long term retention of valuable Key Employees and Directors as well as provide an incentive for the achievement of specific milestones, if applicable.

Performance Share Units

Key Employees, Directors, and Consultants are eligible to receive grants of PSUs, entitling the holder to receive one Common Share for each PSU, subject to the achievement or attainment of specific performance criteria (“Performance Criteria”) within a specific period (“Performance Cycle”). The number of PSUs and the Performance Criteria which must be satisfied in order for the PSUs to vest and the Performance Cycle in respect of such PSUs shall be specified in the applicable award agreement. The Board believes the granting of the PSUs incentivizes the attainment of specific goals which support our overall strategies and creates a sense of ownership and an alignment of the recipients’ interests with those of our shareholders and stakeholders. The granting of PSUs is intended to reward those executives who are responsible for our management and growth and to encourage such executives to develop a long-term vision for us to operate in a manner to maximize shareholder value. By using vesting periods for PSUs in addition to other restrictions, this compensation element is also designed to support long-term retention of valuable employees as well as provide an incentive for the achievement of specific milestones, if applicable.

Deferred Share Units

Key Employees and Directors are eligible to receive grants of DSUs. Directors may elect to receive any part or all of their fees payable in respect of their position as a director as DSUs. Each holder of a DSU is entitled to receive one Common Share for each DSU. The Board believes the granting of DSUs creates long-term incentive, a sense of ownership and an alignment of the recipients’ interests with those of our shareholders and Stakeholders. The granting of DSUs is intended to reward directors who are responsible for oversight of our management and growth and to encourage such directors to maintain a long-term vision for us to operate in a manner to maximize shareholder value.

Stock Appreciation Rights

Key Employees, Directors, and Consultants are eligible to receive grants of SARs, entitling the recipient to receive a payment in Common Shares equal to the current market price less the grant price of the SAR as determined by the Board at the time of the grant for each SAR. Notwithstanding the foregoing, the Board may, in its sole discretion, satisfy payment of the entitlement in cash rather than in Common Shares. The granting of SARs is intended to reward those executives who are responsible for our management and growth and to encourage such executives to develop a long-term vision for us to operate in a manner to maximize shareholder value. By using vesting periods for SARs, this compensation element is also designed to support long-term retention of valuable employees as well as provide an incentive for the achievement of specific milestones, if applicable.

Vesting Provision

No award issued under the LTIP, other than Options, may vest before the date that is one year following the date it is granted or issued. Notwithstanding this provision, vesting may be accelerated for a Participant who dies or who ceases to be an eligible Participant under the LTIP in connection with a change of control, takeover bid, RTO, or other similar transaction.

For Options grants to Investor Relations service providers, vesting must be over a period of not less than one year, with no more than 25% of such options vesting in any three months.

Modification of an Award

Any adjustment, other than as noted in section 4.3 Anti-Dilution of the LTIP, to award granted or issued under our LTIP must be subject to the prior acceptance of the TSXV, including adjustments related to an amalgamation, merger, arrangement, reorganization, spin-off, dividend, or recapitalization.

Further, any decrease in the exercise price of or extension to stock options granted to individuals that are Insiders at the time of the proposed amendment is subject to disinterested shareholder approval.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth the details as at September 30, 2025, the end of our most recently-completed fiscal year, with respect to compensation plans pursuant to which equity securities of the Company are authorized for issuance under our LTIP.

Equity Compensation Plans Information			
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remain available for future issuance under Equity Compensation Plans (excluding securities listed in column (a))
Equity Compensation Plans approved by the shareholders - LTIP	Share Units: nil Options: 995	Share Units: \$nil Options: \$555.42	Share Units: 55 Options: 138,637
Equity Compensation Plans not approved by shareholders	n/a	n/a	n/a

C. Board Practices

Each of our directors will hold office until the next annual general meeting of our shareholders or until his or her office is earlier vacated, in accordance with our Articles of Incorporation (the “Articles”) and the BCBCA. Each of our officers serves at the pleasure of our Board. Please also refer to *Directors and Senior Management* above for further details regarding the periods of service of each of our current directors and officers.

As of September 30, 2025, we did not have any service contracts with any of our independent directors.

Board Nomination

The identification of potential candidates for nomination as our directors is carried out by all directors, who are encouraged to participate in the identification and recruitment of new directors. Potential candidates are primarily identified through referrals and business contacts.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Corporate Cease Trade Orders

As at the date of this document, no current director or executive officer of the Company is, or within the ten years prior to the date of this document has been, a director, chief executive officer or CFO of any company (including the Company), that:

- (a) was subject to a cease trade order (including any management cease trade order which applied to directors or executive officers of a company, whether or not the person is named in the order), an order similar to a cease trade order, or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days (an “Order”) while that person was acting in that capacity; or
- (b) was subject to an Order that was issued after the current director or executive officer ceased to be a director, chief executive officer or CFO and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or CFO

except in the following cases:

Mr. Sean Homuth previously served as the CFO of North Bud Farms Inc. (“North Bud”) from October 2019 to December 2019. Subsequently, Mr. Sean Homuth was appointed as the Chief Executive Officer of North Bud in January 2020. On March 31, 2020, a management cease trade order was issued by the Ontario Securities Commission against Mr. Homuth in respect of North Bud. On June 3, 2023, the Ontario Securities Commission issued a cease trade order in connection with North Bud’s failure to file financial statements, management’s discussion and analysis and officer’s certifications. At of the date hereof, the cease trade order has not yet been revoked.

Bankruptcy

To the knowledge of the Company, as at the date of this document, no current director, executive officer, or shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company is, or within the ten years prior to the date of this document has:

- (a) been a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver manager or trustee appointed to hold the assets of the current or proposed director, executive officer or shareholder.

except in the following case:

Jennifer Welsh, who was CFO of Indiva Limited, a TSXV-listed licensed producer of cannabis which filed on June 13, 2024, for creditor protection under the *Companies' Creditors Arrangement Act* (Canada) due to, among other things, the fragmentation of the cannabis industry, financial underperformance and pressures resulting from the obligations owing to creditors. The company undertook a sales and investment solicitation process and the stalking horse bid from its senior secured debtholder SNDL Inc. was the successful bid.

James Yersh, who was Audit Committee Chair of Indiva Limited, a TSXV-listed licensed producer of cannabis which filed on June 13, 2024, for creditor protection under the *Companies' Creditors Arrangement Act* (Canada) due to, among other things, the fragmentation of the cannabis industry, financial underperformance and pressures resulting from the obligations owing to creditors. The company undertook a sales and investment solicitation process and the stalking horse bid from its senior secured debtholder SNDL Inc. was the successful bid.

Penalties and Sanctions

None of our current directors or executive officers has, within the past ten years, been subject to any penalties or sanctions imposed by a court or by a securities regulatory authority relating to securities legislation or has entered into a settlement agreement with a securities regulatory authority or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision, with the exception of the following:

On November 25, 2015, L-3, EOTECH, and Paul Mangano, who was then President of EOTECH, (collectively, the "Defendants") entered into a Settlement. The complaint alleged that EOTECH sold defective holographic weapon sights to the U.S. Department of Defense, the U.S. Department of Homeland Security, and the Federal Bureau of Investigation during the period from 2007 through 2014 and that the Defendants became aware that design defects in EOTECH's sights caused them to fail in cold temperature and humid environments. The Government of the United States alleged in its complaint that although EOTECH was contractually obligated to disclose these defects to the military, the Defendants nevertheless concealed them until they believed that EOTECH had product improvements that would correct the defects, and even then failed to disclose the nature and severity of the defects. Under the Settlement, the Defendants admitted, acknowledged and accepted responsibility for several claims. Mr. Mangano admitted, acknowledged and accepted responsibility.

L-3 paid the Settlement Amount of USD \$25.6 million and the Government of the United States released the Defendants and all of their at-that-time and former officers, directors and employees from any civil or administrative monetary claims the United States has for the conduct covered in the complaint under the False Claims Act, the Civil Monetary Penalties Law, the Program Fraud Civil Remedies Act, the Financial Institutions Reform, Recovery and Enforcement Act, the Contract Disputes Act and the common law theories of breach of contract, payment by mistake, unjust enrichment and fraud. The Settlement does not contain any sanctions or penalties imposed on Mr. Mangano and Mr. Mangano did not pay any portion of the Settlement Amount.

Audit Committee Disclosure

The Audit Committee's Charter

Our directors have adopted a Charter for the Audit Committee, which sets out the Audit Committee's mandate, organization, powers and responsibilities. The full text of our Audit Committee Charter is available on request from us.

Composition of the Audit Committee

The members of the Audit Committee are James Yersh (Chair), Paul Mangano, and Paul Fortin. All members are independent (as determined under Exchange Act Rule 10A-3 and Rule 5605(a)(2) of The Nasdaq Stock Market Rules and as defined in National Instrument 52-110 - Audit Committees ("NI 52-110") adopted by the Canadian Securities Administrators), and all members are financially literate (as defined in NI 52-110). The Audit Committee meets regularly on at least a quarterly basis. The members of the Audit Committee do not have fixed terms and are appointed and replaced from time to time by resolution of the Board.

The Board has determined that Paul Mangano and James Yersh qualify as financial experts (as defined in Item 407(d)(5)(ii) of Regulation S-K under the Exchange Act) and Rule 5605(c)(2)(A) of The Nasdaq Stock Market Rules; and (ii) is independent (as determined under Exchange Act Rule 10A-3 and Rule 5605(a)(2) of The Nasdaq Stock Market Rules).

Relevant Education and Experience

All of the Audit Committee members are senior-level professionals with experience in financial matters; each has a broad understanding of accounting principles used to prepare financial statements and varied experience as to general application of such accounting principles.

For further relevant education and experience of Mr. Yersh, Mr. Mangano and Mr. Fortin, refer to their respective biographies in *Directors, Senior Management and Employees*.

Audit Committee Oversight

At no time during this past fiscal year have any recommendations by the Audit Committee respecting the appointment and/or compensation of our external auditors not been adopted by the Board.

Pre-Approval Policies and Procedures

Under its charter, the Audit Committee is required to pre-approve all non-audit services to be performed by the external auditors in relation to us, together with approval of the engagement letter for such non-audit services and estimated fees thereof. The pre-approval process for non-audit services will also involve a consideration of the potential impact of such services on the independence of the external auditors.

D. Employees

The following table sets forth the number of employees we had at the end of each fiscal period

Year	Full Time	Part Time	Total
Fiscal 2023 ⁽¹⁾	28	1.2	29.2
Fiscal 2024 ⁽²⁾	29	1	30
Fiscal 2025 ⁽³⁾	43	3	46

(1) Includes 5 consultants at September 30, 2023.

(2) Includes 6 consultants at September 30, 2024.

(3) Includes 2 consultants at September 30, 2025.

None of our employees are members in a labour union.

E. Share Ownership

The table below sets forth the number of Common Shares beneficially owned by the NEOs named in this Annual Report as well as our directors and executive officers as of December 29, 2025. The persons listed below are deemed to be the beneficial owners of Common Shares underlying options, RSUs, and warrants that are exercisable within 60 days from the above date, including “out-of-the money” options. The percentages shown below are based on 1,993,625 outstanding Common Shares as of December 29, 2025, plus 995 Common Shares underlying options, RSUs and warrants that are exercisable within 60 days for the indicated beneficial owner for an aggregate total of 1,861,147.

Shareholdings of Directors and Executive Officers

Name of beneficial owner	Common Share held	Exercisable Options ⁽²⁾	Exercisable warrants	Number of Common Shares beneficially owned	Percent of outstanding Common Shares
David Luxton ⁽¹⁾	8,691	339	34	9,064	0.24 %
Sean Homuth	47	261	—	308	0.01 %
James Yersh	—	—	—	—	— %
Paul Mangano	21	64	—	85	0.0 %
Paul Fortin	—	64	—	64	0.0 %
Rick Hillier	—	64	—	64	0.0 %
Harry Webster	69	—	—	69	0.0 %
Jennifer Welsh	—	—	—	—	— %
	8,828	792	34	9,654	0.25 %

(1) Includes 5,993 Common Shares, 6 exercisable options and 34 exercisable warrants held by Mr. Luxton’s private company, DEFSEC.

(2) Amounts have been adjusted to factor in the 10:1 and 21:1 stock splits completed in fiscal 2025

Refer to section titled, *Compensation*, for the details of the options held by our directors and executive officers as at September 30, 2025. We have since not granted any further options.

We do not have any other equity arrangements for involving employees in our capital, except for the grant of Security-Based Compensation Awards pursuant to our LTIP at the discretion of the Board.

F. Disclosure of a registrant’s action to recover erroneously awarded compensation

The Company adopted an incentive compensation recovery policy effective November 23, 2023 (“Incentive Compensation Recovery Policy”) as required by Nasdaq listing rules and pursuant to Rule 10D-1 of the Exchange Act. The Incentive Compensation Recovery Policy is filed as Exhibit 97.1 to this Annual Report. At no time during or after the fiscal year ended September 30, 2025, was the Company required to prepare an accounting restatement that required recovery of erroneously awarded compensation pursuant to the Incentive Compensation Recovery Policy and, as of September 30, 2025, there was no outstanding balance of erroneously awarded compensation to be recovered from the application of the Incentive Compensation Recovery Policy to a prior restatement.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

To our best knowledge, the following are our only shareholders that beneficially own, directly or indirectly, or exercise control over, shares carrying more than 5% of the outstanding voting rights attached to our Common Shares as at December 24, 2025.

Name of Shareholder	Number of Common Shares	Percentage of Common Shares
Ayrton Capital LLC / Alto Opportunity Master Fund, SPC - Segregated Master Portfolio B / Waqas Khatri ⁽¹⁾	102,907	7.2 %
Lind Global Fund III LP / Lind Global Partners III LLC / Jeff Easton ⁽²⁾	197,494	9.9 %

Notes:

(1) Based on the Schedule 13G filed with the SEC on November 13, 2025.

(2) Based on the Schedule 13G filed with the SEC on December 23, 2025.

In our Annual Report on Form 20-F for Fiscal 2024, we reported two other institutional shareholders as having beneficial ownership of more than 5% of the outstanding Common Shares. Based on Schedule 13 beneficial ownership reports filed with the SEC under the Exchange Act during Fiscal 2024, to our knowledge, these two institutional shareholders no longer hold more than 5% of the outstanding Common Shares.

At December 29, 2025, there were a total of 43 record holders of our Common Shares, of which 9 record holders were resident in the United States, holding a total of 1,975,113 Common Shares, based on available information. This number represents approximately 99% of our total issued and outstanding Common Shares at that date.

We are a publicly owned company, and our Common Shares are owned by Canadian residents, United States residents, and residents of other countries. To our knowledge, we are not directly owned or controlled by another corporation, any foreign government or any other natural or legal person(s), whether severally or jointly. We are not aware of any arrangement, the operation of which may result in a change of control of us.

B. Related Party Transactions

To our knowledge, none of our directors or executive officers, nor any of our subsidiaries or insiders, nor any of our shareholders owning more than 10% of our voting shares, and no person with ties to any of the aforementioned, nor any member of the same group, has had or expects to have an interest in any transactions concluded since the beginning of Fiscal 2022 that has had or could have a material impact on us, or in any projected transactions, except as described below.

Employment and Consulting Agreements

We have entered into a professional services agreement with DEFSEC Corporation to obtain Chairman services from David Luxton and employment agreements with Sean Homuth, Harry Webster and Jennifer Welsh (see *Item 6.B. - Compensation - Employment and Consulting Agreements*).

Related Party Loans

All related party loans were repaid in December 2022. During Fiscal 2023, Fiscal 2024, and Fiscal 2025, we did not enter into any related party loans.

Other Related Party Transactions

For other immaterial related party transactions, refer to Note 11 of the Fiscal 2025 FS.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Financial Statements

This Annual Report contains the Company's consolidated financial statements as at and for the year ended September 30, 2025, the year ended September 30, 2024, and the year ended September 30, 2023. The audit reports of KPMG LLP and MNP are included therein. MNP has advised the Company that they are independent of the Company within the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

Legal Proceedings

We are not a party to any legal proceedings which may have, or have had in the recent past, significant effects on the Company's financial position or profitability.

Dividend Policy

We have not, for any of the three most recently completed fiscal years or our current fiscal year, declared or paid any dividends on our Common Shares, and do not currently have a policy with respect to the payment of dividends. For the foreseeable future, we anticipate that we will not pay dividends but will retain future earnings and other cash resources for the operation and development of our business. The payment of dividends in the future will depend on our earnings, if any, our financial condition, and such other factors as our directors consider appropriate.

B. Significant Changes

Except as otherwise disclosed in this Annual Report, there have been no significant changes in our financial condition since the Fiscal 2025 FS.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our Common Shares are listed and posted for trading on Nasdaq under the symbol "DFSC", the TSXV under the trading stock symbol "DFSC.V" and the Frankfurt Stock Exchange under the stock symbol of "62U2".

Our U.S. IPO Warrants are listed and posted for trading on Nasdaq under the symbol "DFSCW". Our Canadian Warrants are listed and posted for trading on the TSXV under the symbol "DFSC.WT.U".

B. Plan of Distribution

Not applicable.

C. Markets

See Item 9.A. - *Offer and Listing Details*.

All share-related information presented in this section gives effect to the Reverse Splits.

Trading Price and Volume

The following tables set forth information relating to the trading of the Common Shares on the TSXV on a monthly basis for each month of the Fiscal 2025.

Price Range
TSXV – September 2022 to January 26, 2024

Month	Stock Symbol	High \$	Low \$	Total Volume
September 2025	DFSC	5.67	3.88	30,338
August 2025	DFSC	6.21	4.42	50,956
July 2025	DFSC	14.1	5.11	51,155
June 2025	KWE	20.5	6.92	99,408
May 2025	KWE	9.47	5.99	16,581
April 2025	KWE	9.97	5.15	20,698
March 2025	KWE	13.65	8.09	7,649
February 2025	KWE	37.59	12.39	45,310
January 2025	KWE	28.77	13.86	13,314
December 2024	KWE	47.25	15.12	12,706
November 2024	KWE	28.56	15.96	8,435
October 2024	KWE	86.10	26.88	5,375

The following tables set forth information relating to the trading of the Canadian Warrants on the TSXV on a monthly basis for each month of the Fiscal 2025:

Price Range
TSXV – September 2022 to January 26, 2024

Month	Stock Symbol	High \$	Low \$	Total Volume
September 2025	DFSC.WT.U	0.005	0.005	
August 2025	DFSC.WT.U	0.005	0.005	
July 2025	DFSC.WT.U	0.005	0.005	
June 2025	KWE.WT.U	0.005	0.005	
May 2025	KWE.WT.U	0.005	0.005	
April 2025	KWE.WT.U	0.1	0.005	500
March 2025	KWE.WT.U	0.1	0.1	
February 2025	KWE.WT.U	0.1	0.1	
January 2025	KWE.WT.U	0.1	0.1	
December 2024	KWE.WT.U	0.1	0.1	
November 2024	KWE.WT.U	0.1	0.1	
October 2024	KWE.WT.U	0.1	0.1	

[Table of Contents](#)

The following tables set forth information relating to the trading of the U.S. IPO Warrants on the Nasdaq on a monthly basis for each month of the Fiscal 2025:

Price Range
Nasdaq – September 2022 to January 26, 2024

Month	Stock Symbol	High \$	Low \$	Total Volume
September 2025	DFSCW	0.07	0.026	96,672
August 2025	DFSCW	0.04	0.028	11,415
July 2025	DFSCW	0.05	0.023	72,435
June 2025	KWESW	0.075	0.018	310,155
May 2025	KWESW	0.065	0.025	43,242
April 2025	KWESW	0.05	0.011	67,584
March 2025	KWESW	0.04	0.02	28,784
February 2025	KWESW	0.079	0.023	143,992
January 2025	KWESW	0.111	0.021	128,889
December 2024	KWESW	0.055	0.013	205,757
November 2024	KWESW	0.03	0.01	20,192
October 2024	KWESW	0.027	0.011	25,911

The following table sets forth details of the issuances of securities of the Company during Fiscal 2025 that are outstanding but not listed or quoted on any marketplace:

Date of Issue	Description	Number of Securities Sold	Price Per Share/Exercise Price
N/A	N/A ⁽¹⁾	—	—

Notes:

1. In Fiscal 2025, the Company granted Nil Options/RSUs/DSUs/SARs/PSUs to directors and officers of the Company in accordance with, and governed by, the LTIP.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association.

Description of Capital Structure

Our authorized share structure consists of an unlimited number of Common Shares without par value, of which 1,993,626 Common Shares were issued and outstanding as of December 29, 2025, after giving effect to the Reverse Splits. All of the issued Common Shares are fully paid and non-assessable Common Shares in the capital of the Company. The Company does not own any of its Common Shares.

The holders of Common Shares are entitled to notice of, and to vote at, all meetings of shareholders and are entitled to one vote per Common Share. Holders of Common Shares are entitled to receive dividends, if, as and when declared by the Company's board of directors. In the event of the liquidation, dissolution or winding up of the Company, or any other distribution of assets among its shareholders for the purpose of winding up its affairs, holders of Common Shares are entitled to share pro rata in the distribution of the property and assets of the Company. The Common Shares do not carry any pre-emptive rights, conversion or exchange rights, or any redemption, retraction, purchase for cancellation or surrender rights, nor do they contain any sinking or purchase fund provisions, provisions permitting or restricting the issuance of additional securities, or provisions requiring a shareholder to contribute additional capital.

C. Material Contracts

We are a party to the following contracts which management currently considers to be material to the Company and our assets and operations.

- Homuth Agreement
- Webster Agreement
- Employment Agreement entered into between DEFSEC Technologies Inc. (formerly, "KWESST Micro Systems Inc.") and Jennifer Welsh dated February 3, 2025 (the "Welsh Agreement")
- Underwriting Agreement, by and between DEFSEC Technologies Inc. (formerly, "KWESST Micro Systems Inc.") and ThinkEquity LLC, dated April 4, 2024 (the "April 2024 Underwriting Agreement")
- Thales Subcontract
- Placement Agency Agreement, by and between DEFSEC Technologies Inc. (formerly, "KWESST Micro Systems Inc.") and ThinkEquity LLC, dated June 12, 2024 (the "June 2024 Placement Agency Agreement")
- Securities Purchase Agreement, by and between DEFSEC Technologies Inc. (formerly, "KWESST Micro Systems Inc.") and the Purchasers thereto, dated August 9, 2024 (the "August 2024 Securities Purchase Agreement")
- Securities Purchase Agreement, by and between DEFSEC Technologies Inc. (formerly, "KWESST Micro Systems Inc.") and the Purchasers thereto, dated November 12, 2024 (the "November 2024 Securities Purchase Agreement")
- Registration Rights Agreement, by and between DEFSEC Technologies Inc. (formerly, "KWESST Micro Systems Inc.") and the Purchasers thereto, dated November 12, 2024 (the "November 2024 Registration Rights Agreement")
- Placement Agency Agreement, by and between DEFSEC Technologies Inc. (formerly, "KWESST Micro Systems Inc.") and ThinkEquity LLC, dated November 12, 2024 (the "November 2024 Placement Agency Agreement")
- February 2025 Securities Purchase Agreements
- February 2025 Registration Rights Agreement
- February 2025 Placement Agency Agreements
- Securities Purchase Agreement, by and between DEFSEC Technologies Inc. and the Purchasers thereto, dated August 7, 2024 (the "August 2025 Securities Purchase Agreement")
- December 2025 Securities Purchase Agreements

The terms and conditions of these material contracts are described below.

DEFSEC Purchase Agreement

See Note 10 of the Fiscal 2025 FS.

GDMS MPSA

On December 1, 2021, we entered into a MPSA with General Dynamic Mission Systems - Canada.

See *Item 4.B. - Business Overview – Economic Dependence*.

Counter-Crisis Technology Subcontractor Agreement

On July 6, 2022, we entered into a three-year contract with CCT to co-implement a national GSAR Incident Command System for Public Safety Canada, with the OPP as technical advisory stakeholder for this project.

See *Item 4.A. - History and Development of the Company – Events in the Development of the Business Fiscal 2022 Highlights*.

Luxton Agreement

See *Item 6.B. - Employment and Consulting Agreements – David Luxton*.

Canadian Government Contract

On May 2, 2023, we announced that DND awarded a CAD\$136 million five-year defense contract to the JV Group (DEFSEC, Akkodis (MODIS) Canada and Thales Canada). DEFSEC's workshare under the joint venture agreement is up to 20% which would represent approximately CAD\$27.2M (or an average of CAD\$5.4M per year) of the contract. The contract is a professional services agreement whereby DEFSEC will provide qualified software and sustainment resources engineering (at rates agreed to in the contract) on a task-based (as-and-when requested basis) to develop specialized (Government of Canada owned) software applications for Land C4ISR (Canadian Army) systems.

Placement Agency Agreement, Securities Purchase Agreement, and Registration Rights Agreement

See *Item 5.A. – Operating Results – Overview*.

Homuth Agreement

See *Item 6.B. - Employment and Consulting Agreements – Sean Homuth*.

Webster Agreement

See *Item 6.B. - Employment and Consulting Agreements – Harry Webster*.

Welsh Agreement

On February 3, 2025, we entered into the Welsh Agreement for Jennifer Welsh to serve as our Chief Financial Officer and Chief Compliance Officer. Ms. Welsh's base salary is \$285,000, the annual incentive bonus remained up to 50% of her annual salary, her employment may be terminated upon payment of a lump sum equal to 6 months of base salary plus accrued bonus and vacation and all security-based compensation held become vested if terminated prior to the first anniversary from the February 3, 2025, contract date. This lump sum is increased by one month per completed or partially completed year of service to a maximum of 12 months and in the event of a change in control, his employment may be terminated upon payment of a lump sum equal to 12 months of base salary plus full target bonus and accrued vacation. The lump sum is increased by two months per completed or partially completed year of service.

2024 Underwriting Agreement

In connection with the April 2024 Offering, we entered into the April 2024 Underwriting Agreement with ThinkEquity, who acted as sole book-running manager. The gross proceeds from the April 2024 Offering, before deducting the underwriting discount of USD\$0.4875 per Common Share (being an aggregate of USD\$75,002 or 7.5% of the public offering price of the securities) and estimated offering expenses payable by the Company, were approximately USD\$1,000,000. In addition, the Company issued to ThinkEquity as compensation for its services 7,692 Common Share purchase warrants with an exercise price of USD\$8.125 per share, pursuant to the April 2024 Underwriting Agreement.

Thales Subcontract

On June 10, 2024, we announced that we were awarded the Thales Subcontract, whereby we will deliver specialized software services for work under the DND Land C4ISR series of contracts to modernize the Canadian Army's capabilities through the Land C4ISR Program.

Under the Thales Subcontract, our maximum workshare is 20% of all task authorizations awarded to Thales Canada under the Land C4ISR Program and is estimated to be valued up to approximately CAD\$48 million.

Our work will involve the delivery of software engineering development and sustainment services on an as-and-when need basis as directed by rolling task-authorizations throughout the period of performance. Our workscope will include the following types of software development and sustainment work:

- (a) all soldier/dismounted domain battle management application (including Android Tactical Assault Kit (ATAK)) development, integration, and sustainment for soldier/dismounted domain peripherals such as weapons, sensors, and communication systems; and
- (b) dynamic call for fires, ballistics calculation, augmented.

The term of the Thales Subcontract will extend through January 14, 2030, with the possibility for three additional awards for option periods of two years each, potentially extending the work through January 14, 2036.

Our work on the program will be directed by Thales Canada through additional work requests ("AWR") in responses to SOW received from the Land C4ISR Program on a rolling as-and-when-needed basis throughout the term of the Thales Subcontract. We will work with Thales Canada to propose the appropriate resources against customer-solicited AWR SOWs. Once approved in the form of task authorizations, we will have the obligation to recruit and apply resources to the projects alongside Thales Canada resources. We will invoice for work within 15 days of its completion and receive payment net sixty (60) days from the actual delivery of the work.

Under the Thales Subcontract, Thales Canada has flowed to us its share of obligations related to industrial and technological benefits ("ITB") and indigenous business. This requires us to execute 100% of the Thales Subcontract value within Canada and flow portions of the contract value into areas such as skills development and training in key technology areas. Under the Thales Subcontract, such ITB obligations attract potential liquidated damages of 20% for any shortfall over the allowable achievement period. Additionally, we are required to achieve not less than 5% of the contract value with Indigenous business.

As is customary with Canadian government contracts, the Thales Subcontract may be suspended or terminated for convenience or default.

June 2024 Placement Agency Agreement

In connection with the June 2024 Offering, we entered into the June 2024 Placement Agency Agreement with ThinkEquity, who acted as sole placement agent. The gross proceeds from the June 2024 Offering, before deducting placement agent fees of USD\$0.435 per Common Share (being an aggregate of USD\$126,150 or 7.5% of the public offering price of the securities) and estimated offering expenses payable by the Company, were approximately US\$1,682,000. In addition, the Company issued to the placement agent as compensation for its services 14,500 Common Share purchase warrants with an exercise price of US\$7.25 per share, pursuant to the June 2024 Placement Agency Agreement.

August 2024 Securities Purchase Agreement

In connection with the August 2024 Offering, we entered into the August 2024 Securities Purchase Agreement with certain investors for the purchase and sale of 471,500 Common Shares at a purchase price of USD\$2.00 per Common Share. In a concurrent private placement, the Company issued unregistered warrants to purchase up to 471,500 Common Shares at an exercise price of USD\$2.50 per share that were immediately exercisable upon issuance and will expire five years following the date of issuance. H.C. Wainwright & Co. acted as the exclusive placement agent for the August 2024 Offering. The gross proceeds to the Company from the offering were approximately USD\$943,000 before deducting placement agent fees and other offering expenses payable by the Company.

November 2024 Securities Purchase Agreement, November 2024 Registration Rights Agreement, and November 2024 Placement Agency Agreement

See Item 4. A - Events in the Development of the Business – Fiscal 2025 Highlights

February 2025 Securities Purchase Agreements, February 2025 Registration Rights Agreements, and February 2025 Placement Agency Agreements

See Item 4. A - Events in the Development of the Business – Fiscal 2025 Highlights.

August 2025 Securities Purchase Agreement

In connection with the August 2025 Offering, we entered into the August 2025 Securities Purchase Agreement with certain investors for the purchase and sale of 759,879 Common Shares (or Pre-funded Warrants in lieu thereof, together with common share purchase warrants to purchase up to 759,879 Common Shares at a combined public offering price of CAD\$8.955 per share (or Pre-funded Warrant in lieu thereof) and accompanying Common Share purchase warrant, for gross proceeds of approximately CAD\$6.8 million before deducting placement agent fees and other offering expenses payable by the Company. The Common Share purchase warrants have an exercise price of CAD\$10.52 per share, are exercisable upon issuance and will expire five years following the date of issuance. H.C. Wainwright & Co. acted as the exclusive placement agent for the August 2025 Offering.

December 2025 Securities Purchase Agreements

See Item 4. A - Events in the Development of the Business – Year-to-Date Fiscal 2026 Highlights.

D. Exchange Controls

Canada has no system of exchange controls. There are no Canadian governmental laws, decrees, or regulations relating to restrictions on the repatriation of capital or earnings of the Company to non-resident investors. There are no laws in Canada or exchange control restrictions affecting the remittance of dividends or other payments made by the Company in the ordinary course to non-resident holders of the Common Shares by virtue of their ownership of such Common Shares, except as discussed below in *Item 10.E. - Certain United States Federal Income Tax Considerations and Certain Canadian Federal Income Tax Consequences*.

There are no limitations under the laws of Canada or in the organizing documents of the Company on the right of foreigners to hold or vote securities of the Company, except that the *Investment Canada Act* may require that a “non-Canadian” not acquire “control” of the Company without prior review and approval by the Minister of Innovation, Science and Economic Development, where applicable thresholds are exceeded. The acquisition of one-third or more of the voting shares of the Company would give rise a rebuttable presumption of an acquisition of control, and the acquisition of more than fifty percent of the voting shares of the Company would be deemed to be an acquisition of control. In addition, the *Investment Canada Act* provides the Canadian government with broad discretionary powers in relation to national security to review and potentially prohibit, condition or require the divestiture of, any investment in the Company by a non-Canadian, including non-control level investments. “Non-Canadian” generally means an individual who is neither a Canadian citizen nor a permanent resident of Canada within the meaning of the *Immigration and Refugee Protection Act* (Canada) who has been ordinarily resident in Canada for not more than one year after the time at which he or she first became eligible to apply for Canadian citizenship, or a corporation, partnership, trust or joint venture that is ultimately controlled by non-Canadians.

E. Taxation

Certain United States Federal Income Tax Considerations

The following is a general summary of certain material U.S. federal income tax considerations applicable to a U.S. Holder (as defined below) arising from and relating to the acquisition, ownership, and disposition of Common Shares. This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax considerations that may apply to a U.S. Holder arising from and relating to the acquisition, ownership, or disposition of Common Shares. In addition, this summary does not take into account the individual facts and circumstances of any particular U.S. Holder that may affect the U.S. federal income tax considerations applicable to such U.S. Holder, including without limitation specific tax considerations applicable to a U.S. Holder under an applicable income tax treaty. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any particular U.S. Holder. This summary does not address the U.S. federal net investment income tax, U.S. federal alternative minimum tax, U.S. federal estate and gift tax, U.S. state and local tax, or non-U.S. tax considerations applicable to U.S. Holders of the acquisition, ownership, and disposition of Common Shares. In addition, except as specifically set forth below, this summary does not discuss applicable tax reporting requirements. Each prospective U.S. Holder should consult its own tax advisor regarding the U.S. federal, U.S. state and local, and non-U.S. tax considerations applicable to the acquisition, ownership, and disposition of Common Shares.

No legal opinion from U.S. legal counsel or ruling from the Internal Revenue Service (the “IRS”) has been requested, or will be obtained, regarding the U.S. federal income tax considerations applicable to U.S. Holders discussed in this summary. This summary is not binding on the IRS, and the IRS is not precluded from taking a position that is different from, and contrary to, the positions taken in this summary. In addition, because the authorities on which this summary is based are subject to various interpretations, the IRS and the U.S. courts could disagree with one or more of the conclusions described in this summary. There can be no assurance that the IRS will not challenge one or more of the tax considerations discussed in this summary.

This summary is based on the United States Internal Revenue Code of 1986, as amended (the “Code”), Treasury Regulations (whether final, temporary, or proposed), published rulings of the IRS, published administrative positions of the IRS, the Convention between the United States of America and Canada with respect to Taxes on Income and on Capital of 1980, as amended (the “Canada-U.S. Tax Convention”), and U.S. court decisions that are applicable and, in each case, as in effect and available, as of the date of this document. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive or prospective basis which could affect the U.S. federal income tax considerations described in this summary. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation that, if enacted, could be applied on a retroactive, current or prospective basis.

U.S. Holders

For purposes of this summary, the term “U.S. Holder” means a beneficial owner of Common Shares that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust that (i) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions or (ii) has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

U.S. Holders Subject to Special U.S. Federal Income Tax Rules Not Addressed

This summary does not address the U.S. federal income tax considerations applicable to U.S. Holders that are subject to special provisions under the Code, including, but not limited to, U.S. Holders that: (a) are tax-exempt organizations, qualified retirement plans, individual retirement accounts, or other tax-deferred accounts; (b) are banks, financial institutions, underwriters, insurance companies, real estate investment trusts, or regulated investment companies; (c) are broker-dealers, dealers, or traders in securities or currencies that elect to apply a mark-to-market accounting method; (d) have a “functional currency” other than the U.S. dollar; (e) own Common Shares as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other integrated transaction; (f) acquire Common Shares in connection with the cancellation or exercise of employee stock options or otherwise as compensation for services; (g) hold Common Shares other than as a capital asset within the meaning of Section 1221 of the Code (generally, property held for investment purposes); (h) are partnerships or other pass-through entities (and investors in such partnerships and entities); (i) are S corporations (and shareholders or investors in such S corporations); (j) own, have owned or will own (directly, indirectly, or by attribution) 10% or more of the total combined voting power or value of the outstanding shares of the Company; (k) are U.S. expatriates or former long-term residents of the United States, (l) hold Common Shares in connection with a trade or business, permanent establishment, or fixed base outside the United States, or (m) are subject to special tax accounting rules with respect to Common Shares. U.S. Holders that are subject to special provisions under the Code, including, but not limited to, U.S. Holders described immediately above, should consult their own tax advisors regarding the U.S. federal, U.S. state and local, and non-U.S. tax considerations applicable to the acquisition, ownership and disposition of Common Shares.

If an entity or arrangement that is classified as a partnership (or other “pass-through” entity) for U.S. federal income tax purposes holds Common Shares, the U.S. federal income tax considerations applicable to such entity or arrangement and the partners (or other owners) of such entity or arrangement generally will depend on the activities of the entity or arrangement and the status of such partners (or other owners). This summary does not address the tax consequences to any such partner or owner. Partners (or other owners) of entities or arrangements that are classified as partnerships or other “pass-through” entities for U.S. federal income tax purposes should consult their own tax advisors regarding the U.S. federal, U.S. state and local, and non-U.S. tax consequences arising from and relating to the acquisition, ownership, and disposition of Common Shares.

Acquisition, Ownership and Disposition of Common Shares

The following discussion describes the general rules applicable to the acquisition, ownership and disposition of the Common Shares, but is subject in its entirety to the rules described below under the heading “Passive Foreign Investment Company Rules”.

Taxation of Distributions

A U.S. Holder that receives a distribution, including a constructive distribution, with respect to a Common Share will be required to include the amount of such distribution in gross income as a dividend (without reduction for any foreign income tax withheld from such distribution) to the extent of the current and accumulated “earnings and profits” of the Company, as computed under U.S. federal income tax principles. To the extent that a distribution exceeds the current and accumulated “earnings and profits” of the Company, such distribution will be treated first as a tax-free return of capital to the extent of a U.S. Holder’s tax basis in the Common Shares and thereafter as gain from the sale or exchange of such Common Shares (see “Sale or Other Taxable Disposition of Common Shares” below). However, the Company may not maintain calculations of its earnings and profits in accordance with U.S. federal income tax principles, and each U.S. Holder should therefore assume that any distribution by the Company with respect to the Common Shares will constitute dividend income. Dividends received on Common Shares by corporate U.S. Holders generally will not be eligible for the “dividends received deduction” in respect of dividends received from domestic corporations. Subject to applicable limitations and provided the Company is eligible for the benefits of the Canada-U.S. Tax Convention or the Common Shares are readily tradable on an established securities market in the United States, dividends paid by the Company to non-corporate U.S. Holders, including individuals, generally will be eligible for the preferential tax rates applicable to long-term capital gains for dividends, provided certain holding period and other conditions are satisfied, including that the Company not be classified as a PFIC in the tax year of distribution or in the preceding tax year. A dividend generally will be taxed to a U.S. Holder at ordinary income tax rates if the Company is a PFIC for the tax year of such distribution or the preceding tax year. The dividend rules are complex, and each U.S. Holder should consult its own tax advisor regarding the application of such rules.

Sale or Other Taxable Disposition of Common Shares

A U.S. Holder will generally recognize gain or loss on the sale or other taxable disposition of Common Shares in an amount equal to the difference, if any, between (a) the amount of cash plus the fair market value of any property received and (b) such U.S. Holder’s adjusted tax basis in such Common Shares sold or otherwise disposed of. Any such gain or loss recognized on such sale or other disposition generally will be capital gain or loss, which will be long-term capital gain or loss if, at the time of the sale or other disposition, such Common Shares are held for longer than one year.

Preferential tax rates apply to long-term capital gains of a U.S. Holder that is an individual, estate, or trust. There are currently no preferential tax rates for long-term capital gains of a U.S. Holder that is a corporation. Deductions for capital losses are subject to significant limitations under the Code.

Passive Foreign Investment Company Rules

If the Company were to constitute a “passive foreign investment company” within the meaning of Section 1297(a) of the Code (a “PFIC”) for any tax year during a U.S. Holder’s holding period for its Common Shares, then certain potentially adverse rules would affect the U.S. federal income tax considerations applicable to a U.S. Holder resulting from the acquisition, ownership and disposition of Common Shares. The Company believes that it was not a PFIC for its most recently completed tax year. The Company’s PFIC classification for its current or future tax years is uncertain and may depend on, among other things, how quickly the Company may raise cash pursuant to recent offerings, the manner in which, and how quickly, the Company utilizes its cash on hand and the cash proceeds received from recent offerings, as well as on changes in the market value of its Common Shares. Whether the Company is a PFIC for any taxable year will also depend on the composition of its income and the composition, nature and value of its assets from time to time (including the value of its goodwill, which may be determined by reference to the value of the Common Shares, which could fluctuate). Additionally, the analysis depends, in part, on the application of complex U.S. federal income tax rules, which are subject to differing interpretations. No opinion of legal counsel or ruling from the IRS concerning the status of the Company as a PFIC has been obtained or is currently planned to be requested. PFIC classification is fundamentally factual in nature, generally cannot be determined until the close of the tax year in question and is determined annually. Consequently, there can be no assurance that the Company has never been, is not, and will not become a PFIC for any tax year during which U.S. Holders hold Common Shares.

[Table of Contents](#)

In addition, for any tax year in which the Company is classified as a PFIC, a U.S. Holder will be required to file an annual report with the IRS containing such information as Treasury Regulations and/or other IRS guidance may require, which filing obligation would generally commence in the first tax year in which the Company is classified as a PFIC and in which such U.S. Holder holds Common Shares. A failure to satisfy such reporting requirements may result in an extension of the time period during which the IRS can assess a tax. U.S. Holders should consult their own tax advisors regarding the requirements of filing such information returns under these rules, including the requirement to file an IRS Form 8621 annually.

The Company generally will be a PFIC if, after the application of certain “look-through” rules with respect to subsidiaries in which the Company holds at least 25% of the value of such subsidiary, for a tax year, (a) 75% or more of the gross income of the Company for such tax year is passive income (the “income test”) or (b) 50% or more of the value of the Company’s assets either produce passive income or are held for the production of passive income (the “asset test”), based on the quarterly average of the fair market value of such assets. “Gross income” generally includes all sales revenues less the cost of goods sold, plus income from investments and incidental or outside operations or sources, and “passive income” generally includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions. Cash is generally a passive asset for these purposes.

For purposes of the PFIC income test and asset test described above, if the Company owns, directly or indirectly, 25% or more of the total value of the outstanding shares of another corporation, the Company will be treated as if it (i) held a proportionate share of the assets of such other corporation and (ii) received directly a proportionate share of the income of such other corporation. In addition, for purposes of the PFIC income test and asset test described above, and assuming certain other requirements are met, “passive income” does not include certain interest, dividends, rents, or royalties that are received or accrued by the Company from certain “related persons” (as defined in Section 954(d)(3) of the Code), to the extent such items are properly allocable to the income of such related person that is not passive income.

Under certain attribution rules, if the Company is a PFIC, U.S. Holders will generally be deemed to own their proportionate share of the Company’s direct or indirect equity interest in any company that is also a PFIC (a “Subsidiary PFIC”), and will generally be subject to U.S. federal income tax on their proportionate share of (i) any “excess distributions,” as described below, on the stock of a Subsidiary PFIC and (ii) a disposition or deemed disposition of the stock of a Subsidiary PFIC by the Company or another Subsidiary PFIC, both as if such U.S. Holders directly held the shares of such Subsidiary PFIC. In addition, U.S. Holders may be subject to U.S. federal income tax on any indirect gain realized on the stock of a Subsidiary PFIC on the sale or disposition of Common Shares. Accordingly, U.S. Holders should be aware that they could be subject to tax under the PFIC rules even if no distributions are received and no redemptions or other dispositions of Common Shares are made.

Default PFIC Rules Under Section 1291 of the Code

If the Company is a PFIC for any tax year during which a U.S. Holder owns Common Shares, the U.S. federal income tax consequences to such U.S. Holder of the acquisition, ownership and disposition of Common Shares will depend on whether such U.S. Holder makes an election to treat the Company and each Subsidiary PFIC, if any, as a “qualified electing fund” or “QEF” under Section 1295 of the Code (each, a “QEF Election”) for the first taxable year in which the Company or its Subsidiary PFIC (as applicable) is a PFIC in which the U.S. Holder holds Common Shares (or is deemed to hold stock of the Subsidiary PFIC), or a QEF election together with a “purging” election with respect to such entity, or makes a mark-to-market election under Section 1296 of the Code with respect to the Common Shares (a “Mark-to-Market Election”). A U.S. Holder that does not make either a QEF Election or a Mark-to-Market Election will be referred to in this summary as a “Non-Electing U.S. Holder” and will generally be subject to tax as described below.

A Non-Electing U.S. Holder will be subject to the default rules of Section 1291 of the Code (described below) with respect to: (i) any gain recognized on the sale or other taxable disposition of Common Shares (which, subject to the effectiveness of proposed Treasury Regulations, may include gain realized by reason of transfers of Common Shares that would otherwise qualify as non-recognition transactions for U.S. federal income tax purposes); and (ii) any “excess distribution” received on the Common Shares. A distribution generally will be an “excess distribution” to the extent that such distribution (together with all other distributions received in the current tax year) exceeds 125% of the average distributions received during the three preceding tax years (or during a U.S. Holder’s holding period for the Common Shares, if shorter).

Under Section 1291 of the Code, if the Company were to constitute a PFIC during a Non-Electing U.S. Holder's holding period, any gain recognized on the sale or other taxable disposition of Common Shares (including an indirect disposition of the stock of any Subsidiary PFIC), and any "excess distribution" received on the Common Shares or with respect to the stock of a Subsidiary PFIC, must be ratably allocated to each day in a Non-Electing U.S. Holder's holding period for the respective Common Shares. The amount of any such gain or excess distribution allocated to the tax year of disposition or distribution of the excess distribution and to years before the entity became a PFIC, if any, would be taxed as ordinary income (and not eligible for certain preferred rates). The amounts allocated to any other tax year would be subject to U.S. federal income tax at the highest tax rate applicable to ordinary income in each such year, and an interest charge would be imposed on the tax liability for each such year, calculated as if such tax liability had been due in each such year. A Non-Electing U.S. Holder that is not a corporation must treat any such interest paid as "personal interest," which is not deductible.

If the Company ceases to be a PFIC, a Non-Electing U.S. Holder may terminate this deemed PFIC status with respect to the Common Shares by electing to recognize gain (which will be taxed under the default rules of Section 1291 of the Code discussed above), but not loss, as if such Common Shares were sold on the last day of the last tax year for which the Company was a PFIC.

QEF Election

A U.S. Holder that makes a timely and effective QEF Election for the first tax year in which the U.S. Holder's holding period of its Common Shares begins generally will not be subject to the default rules of Section 1291 of the Code discussed above with respect to its Common Shares. A U.S. Holder that makes a timely and effective QEF Election will be subject to U.S. federal income tax on such U.S. Holder's pro rata share of (a) the net capital gain of the Company, which will be taxed as long-term capital gain to such U.S. Holder, and (b) the ordinary earnings of the Company, which will be taxed as ordinary income to such U.S. Holder. Generally, "net capital gain" is the excess of (i) net long-term capital gain over (ii) net short-term capital gain, and "ordinary earnings" are the excess of (x) "earnings and profits" over (y) net capital gain. A U.S. Holder that makes a QEF Election will be subject to U.S. federal income tax on such amounts for each tax year in which the Company is a PFIC, regardless of whether such amounts are actually distributed to such U.S. Holder by the Company. However, for any tax year in which the Company is a PFIC and has no net income or gain, U.S. Holders that have made a QEF Election would not have any income inclusions as a result of the QEF Election. If a U.S. Holder that made a QEF Election has an income inclusion, such a U.S. Holder may, subject to certain limitations, elect to defer payment of current U.S. federal income tax on such amounts, subject to an interest charge. If such U.S. Holder is not a corporation, any such interest paid will be treated as "personal interest," which is not deductible.

A U.S. Holder that makes a timely and effective QEF Election with respect to the Company generally (a) may receive a tax-free distribution from the Company to the extent that such distribution represents "earnings and profits" of the Company that were previously included in income by the U.S. Holder because of such QEF Election and (b) will adjust such U.S. Holder's tax basis in the Common Shares to reflect the amount included in income or allowed as a tax-free distribution because of such QEF Election. In addition, a U.S. Holder that makes a timely and effective QEF Election generally will recognize capital gain or loss on the sale or other taxable disposition of Common Shares.

The procedure for making a QEF Election, and the U.S. federal income tax consequences of making a QEF Election, will depend on whether such QEF Election is timely. A QEF Election will be treated as "timely" if such QEF Election is made for the first year in the U.S. Holder's holding period for the Common Shares in which the Company was a PFIC. A U.S. Holder may make a timely QEF Election by filing the appropriate QEF Election documents at the time such U.S. Holder files a timely-filed U.S. federal income tax return for such year. If a U.S. Holder does not make a timely and effective QEF Election for the first year in the U.S. Holder's holding period for the Common Shares, the U.S. Holder may still be able to make a timely and effective QEF Election in a subsequent year if such U.S. Holder meets certain requirements and makes a "purging" election to recognize gain (which will be taxed under the default rules of Section 1291 of the Code discussed above) as if such Common Shares were sold for their fair market value on the day the QEF Election is effective. If a U.S. Holder makes a QEF Election but does not make a "purging" election to recognize gain as discussed in the preceding sentence, then such U.S. Holder shall be subject to the QEF Election rules and shall continue to be subject to tax under the default rules of Section 1291 of the Code discussed above with respect to its Common Shares. If a U.S. Holder makes a "purging" election, the U.S. Holder will have additional basis (to the extent of any gain recognized on the deemed sale) and, solely for purposes of the PFIC rules, a new holding period in the Common Shares. If a U.S. Holder owns PFIC stock indirectly through another PFIC, separate QEF Elections must be made for the PFIC in which the U.S. Holder is a direct shareholder and the Subsidiary PFIC for the QEF rules to apply to both PFICs.

A QEF Election is made on a shareholder-by-shareholder basis and will apply to the tax year for which such QEF Election is timely made and to all subsequent tax years, unless such QEF Election is invalidated or terminated or the IRS consents to revocation of such QEF Election. If a U.S. Holder makes a QEF Election and, in a subsequent tax year, the Company ceases to be a PFIC, the QEF Election will remain in effect (although it will not be applicable) during those tax years in which the Company is not a PFIC. Accordingly, if the Company becomes a PFIC again in a later tax year, the QEF Election will still be effective and the U.S. Holder will be subject to the QEF rules described above during any subsequent tax year in which the Company is treated as a PFIC.

A U.S. Holder makes a QEF Election by attaching a completed IRS Form 8621, including a PFIC Annual Information Statement, to a timely-filed United States federal income tax return. However, if the Company does not provide the required information with regard to it or any of its Subsidiary PFICs, U.S. Holders will not be able to make a QEF Election for such entity and will continue to be subject to the default rules of Section 1291 of the Code discussed above that apply to Non-Electing U.S. Holders with respect to the taxation of gains and excess distributions. Retroactive QEF elections generally may be made only by filing a protective statement with such return and if certain other conditions are met or with the consent of the IRS.

U.S. Holders should be aware for each tax year, if any, that the Company is a PFIC, the Company can provide no assurances that it will satisfy the record-keeping requirements of a PFIC, or that it will make available to U.S. Holders the information such U.S. Holders require to make a QEF Election with respect to the Company or to any Subsidiary PFIC. Because the Company may own shares in one or more Subsidiary PFICs at any time, U.S. Holders will continue to be subject to the rules discussed above with respect to the taxation of gains and excess distributions with respect to any Subsidiary PFIC for which the U.S. Holders do not obtain such required information. Each U.S. Holder should consult its own tax advisors regarding the availability of, and procedure for making, a QEF Election with respect to the Company and any Subsidiary PFIC.

Mark-to-Market Election

A U.S. Holder may make a Mark-to-Market Election with respect to the Common Shares only if the Common Shares are marketable stock. The Common Shares generally will be “marketable stock” if the Common Shares are regularly traded on (i) a national securities exchange that is registered with the SEC, (ii) the national market system established pursuant to Section 11A of the U.S. Exchange Act, or (iii) a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located, provided that (a) such foreign exchange has trading volume, listing, financial disclosure, and surveillance requirements, and meets other requirements and the laws of the country in which such foreign exchange is located, together with the rules of such foreign exchange, ensure that such requirements are actually enforced and (b) the rules of such foreign exchange effectively promote active trading of listed stocks. If such stock is traded on such a qualified exchange or other market, such stock generally will be “regularly traded” for any calendar year during which such stock is traded, other than in de minimis quantities, on at least 15 days during each calendar quarter. Each U.S. Holder should consult its own tax advisor with respect to whether the Common Shares are “marketable stock” for this purpose.

A U.S. Holder that makes a Mark-to-Market Election with respect to its Common Shares generally will not be subject to the default rules of Section 1291 of the Code discussed above with respect to such Common Shares. However, if a U.S. Holder does not make a Mark-to-Market Election beginning in the first tax year of such U.S. Holder’s holding period for the Common Shares for which the Company is a PFIC and such U.S. Holder has not made a timely QEF Election, the rules of Section 1291 of the Code discussed above will apply to certain dispositions of, and distributions on, the Common Shares.

A U.S. Holder that makes a Mark-to-Market Election will include in ordinary income, for each tax year in which the Company is a PFIC, an amount equal to the excess, if any, of (i) the fair market value of the Common Shares, as of the close of such tax year over (ii) such U.S. Holder’s adjusted tax basis in such Common Shares. A U.S. Holder that makes a Mark-to-Market Election will be allowed a deduction in an amount equal to the excess, if any, of (i) such U.S. Holder’s adjusted tax basis in the Common Shares, over (ii) the fair market value of such Common Shares (but only to the extent of the net amount of previously included income as a result of the Mark-to-Market Election for prior tax years).

A U.S. Holder that makes a Mark-to-Market Election generally also will adjust such U.S. Holder's tax basis in the Common Shares to reflect the amount included in gross income or allowed as a deduction because of such Mark-to-Market Election. In addition, upon a sale or other taxable disposition of Common Shares, a U.S. Holder that makes a Mark-to-Market Election will recognize ordinary income or ordinary loss (not to exceed the excess, if any, of (i) the amount included in ordinary income because of such Mark-to-Market Election for prior tax years over (ii) the amount allowed as a deduction because of such Mark-to-Market Election for prior tax years). Losses that exceed this limitation are subject to the rules generally applicable to losses provided in the Code and Treasury Regulations. These amounts of ordinary income would not be eligible for the preferential tax rates applicable to qualified dividend income or long-term capital gains.

A U.S. Holder makes a Mark-to-Market Election by attaching a completed IRS Form 8621 to a timely filed U.S. federal income tax return. A timely Mark-to-Market Election applies to the tax year in which such Mark-to-Market Election is made and to each subsequent tax year, unless the Common Shares cease to be "marketable stock" or the IRS consents to revocation of such election. Each U.S. Holder should consult its own tax advisor regarding the availability of, and procedure for making, a Mark-to-Market Election.

Although a U.S. Holder may be eligible to make a Mark-to-Market Election with respect to the Common Shares, no such election may be made with respect to the stock of any Subsidiary PFIC that a U.S. Holder is treated as owning, because such stock is not marketable stock. Hence, the Mark-to-Market Election will not be effective to avoid the application of the default rules of Section 1291 of the Code described above with respect to deemed dispositions of Subsidiary PFIC stock or excess distributions from a Subsidiary PFIC to its shareholder.

Other PFIC Rules

Under Section 1291 of the Code, the IRS has issued proposed Treasury Regulations that would impact certain consequences of the application of the PFIC regime to U.S. Holders. Among other consequences, and subject to certain exceptions, such proposed Treasury Regulations would cause a U.S. Holder that had not made a timely QEF Election to recognize gain (but not loss) upon certain transfers of Common Shares that would otherwise be tax-deferred (e.g., gifts and exchanges pursuant to corporate reorganizations). However, the specific U.S. federal income tax consequences to a U.S. Holder may vary based on the manner in which Common Shares are transferred.

Certain additional adverse rules may apply with respect to a U.S. Holder if the Company is a PFIC, regardless of whether such U.S. Holder makes a QEF Election. For example, under Section 1298(b)(6) of the Code, a U.S. Holder that uses Common Shares as security for a loan will, except as may be provided in Treasury Regulations, be treated as having made a taxable disposition of such Common Shares.

In addition, a U.S. Holder who acquires Common Shares from a decedent generally will not receive a "step up" in tax basis of such Common Shares to fair market value unless such decedent had a timely and effective QEF Election in place.

Special rules also apply to the amount of foreign tax credit that a U.S. Holder may claim on a distribution from a PFIC. Subject to such special rules, foreign taxes paid with respect to any distribution in respect of stock in a PFIC are generally eligible for the foreign tax credit. The rules relating to distributions by a PFIC and their eligibility for the foreign tax credit are complicated, and each U.S. Holder should consult with its own tax advisors regarding the availability of the foreign tax credit with respect to distributions by a PFIC.

The PFIC rules are complex, and each U.S. Holder should consult its own tax advisors regarding the PFIC rules and how the PFIC rules may affect the U.S. federal income tax consequences of the acquisition, ownership, and disposition of Common Shares.

Receipt of Foreign Currency

The amount of any distribution paid to a U.S. Holder in foreign currency, or payment received on the sale, exchange or other taxable disposition of Common Shares, generally will be equal to the U.S. dollar value of such foreign currency based on the exchange rate applicable on the date of receipt or, if applicable, the date of settlement if the Common Shares are traded on an established securities market (regardless of whether such foreign currency is converted into U.S. dollars at that time). A U.S. Holder will have a basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Any U.S. Holder who converts or otherwise disposes of the foreign currency after the date of receipt may have a foreign currency exchange gain or loss that would be treated as ordinary income or loss, and generally will be U.S. source income or loss for foreign tax credit purposes. Different rules apply to U.S. Holders who use the accrual method of tax accounting. Each U.S. Holder should consult its own U.S. tax advisor regarding the U.S. federal income tax consequences of receiving, owning, and disposing of foreign currency.

Foreign Tax Credit

Dividends paid on the Common Shares will be treated as foreign-source income, and generally will be treated as “passive category income” or “general category income” for U.S. foreign tax credit purposes. Any gain or loss recognized on a sale or other disposition of Common Shares generally will be United States source gain or loss. Certain U.S. Holders that are eligible for the benefits of the Canada-U.S. Tax Convention may elect to treat such gain or loss as Canadian source gain or loss for U.S. foreign tax credit purposes. The Code applies various complex limitations on the amount of foreign taxes that may be claimed as a credit by U.S. taxpayers. In addition, Treasury Regulations that apply to foreign taxes paid or accrued (the “Foreign Tax Credit Regulations”) impose additional requirements for Canadian withholding taxes to be eligible for a foreign tax credit, and there can be no assurance that those requirements will be satisfied. The Treasury Department has released guidance temporarily pausing the application of certain of the Foreign Tax Credit Regulations.

Subject to the PFIC rules and the Foreign Tax Credit Regulations, each as discussed above, a U.S. Holder that pays (whether directly or through withholding) Canadian income tax with respect to dividends paid on the Common Shares generally will be entitled, at the election of such U.S. Holder, to receive either a deduction or a credit for such Canadian income tax paid. Generally, a credit will reduce a U.S. Holder’s U.S. federal income tax liability on a dollar-for-dollar basis, whereas a deduction will reduce a U.S. Holder’s income that is subject to U.S. federal income tax. This election is made on a year-by-year basis and applies to all foreign taxes paid or accrued (whether directly or through withholding) by a U.S. Holder during a year. The foreign tax credit rules are complex and involve the application of rules that depend on a U.S. Holder’s particular circumstances. Accordingly, each U.S. Holder should consult its own tax advisor regarding the foreign tax credit rules.

Information Reporting and Backup Withholding

Under U.S. federal income tax law and Treasury Regulations, certain categories of U.S. Holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. For example, U.S. return disclosure obligations (and related penalties) are imposed on U.S. Holders that hold certain specified foreign financial assets in excess of certain threshold amounts. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a non-U.S. entity. U.S. Holders may be subject to these reporting requirements unless their Common Shares are held in an account at certain financial institutions. Penalties for failure to file certain of these information returns are substantial. U.S. Holders should consult their own tax advisors regarding the requirements of filing information returns, including the requirement to file an IRS Form 8938.

Payments made within the United States or by a U.S. payor or U.S. middleman, of dividends on, and proceeds arising from the sale or other taxable disposition of, Common Shares will generally be subject to information reporting and backup withholding tax, currently at the rate of 24%, if a U.S. Holder (a) fails to furnish such U.S. Holder’s correct U.S. taxpayer identification number (generally on IRS Form W-9), (b) furnishes an incorrect U.S. taxpayer identification number, (c) is notified by the IRS that such U.S. Holder has previously failed to properly report items subject to backup withholding tax, or (d) fails to certify, under penalty of perjury, that such U.S. Holder has furnished its correct U.S. taxpayer identification number and that the IRS has not notified such U.S. Holder that it is subject to backup withholding tax. However, certain exempt persons, such as U.S. Holders that are corporations, generally are excluded from these information reporting and backup withholding rules. Backup withholding is not an additional tax. Any amounts withheld under the U.S. backup withholding tax rules generally will be allowed as a credit against a U.S. Holder’s U.S. federal income tax liability, if any, or will be refunded, if such U.S. Holder furnishes required information to the IRS in a timely manner.

The discussion of reporting requirements set forth above is not intended to constitute a complete description of all reporting requirements that may apply to a U.S. Holder. A failure to satisfy certain reporting requirements may result in an extension of the time period during which the IRS can assess a tax, and under certain circumstances, such an extension may apply to assessments of amounts unrelated to any unsatisfied reporting requirement. Each U.S. Holder should consult its own tax advisors regarding the information reporting and backup withholding rules.

THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSIDERATIONS APPLICABLE TO U.S. HOLDERS WITH RESPECT TO THE ACQUISITION, OWNERSHIP, AND DISPOSITION OF COMMON SHARES. U.S. HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX CONSIDERATIONS APPLICABLE TO THEM IN LIGHT OF THEIR OWN PARTICULAR CIRCUMSTANCES.

Certain Canadian Federal Income Tax Consequences

The following summarizes certain Canadian federal income tax consequences generally applicable under the Income Tax Act (Canada) (“Tax Act”) and the Canada-U.S. Tax Convention to the holding and disposition of Common Shares.

This summary is restricted to holders of Common Shares each of whom, at all material times for the purposes of the Tax Act and the Canada-U.S. Tax Convention:

- (i) are residents solely in the United States for the purposes of the Canada-U.S. Tax Convention and, for greater certainty, are not residents, or deemed to be residents of Canada;
- (ii) are entitled to the benefits of the Canada-U.S. Tax Convention and each is a “qualifying person” within the meaning of the Canada-U.S. Tax Convention;
- (iii) hold all Common Shares as capital property and as beneficial owner;
- (iv) hold no Common Shares that are “taxable Canadian property” (as defined in the Tax Act) of the holder;
- (v) deal at arm’s length with and are not affiliated with the Company;
- (vi) do not use or hold and are not deemed to use or hold any Common Shares in the course of a business or part of a business carried on in Canada;
- (vii) did not, do not and will not have a permanent establishment in Canada within the meaning of the Canada-U.S. Tax Convention;
- (viii) did not acquire Common Shares by virtue of employment;
- (ix) are not financial institutions, authorized foreign banks, partnerships or trusts for the purposes of the Tax Act; and
- (x) are not insurers that carry on business in Canada and elsewhere;

(each such holder, a “U.S. Resident Holder”).

Certain U.S.-resident entities that are fiscally transparent for United States federal income tax purposes (including limited liability companies) may not in all circumstances be entitled to the benefits of the Canada-U.S. Tax Convention. However, members of or holders of an interest in such entities that hold Common Shares may be entitled to the benefits of the Canada-U.S. Tax Convention for income derived through such entities. Such members or holders should consult their own tax advisors in this regard.

Generally, a holder’s Common Shares will be considered to be capital property of the holder provided that the holder is not a trader or dealer in securities, did not acquire, hold or dispose of the Common Shares in one or more transactions considered to be an adventure or concern in the nature of trade and does not hold the Common Shares as inventory in the course of carrying on a business.

This summary is based on the current provisions of the Tax Act and the Canada-U.S. Tax Convention in effect on the date hereof, all specific proposals to amend the Tax Act and Canada-U.S. Tax Convention publicly announced by or on behalf of the Minister of Finance (Canada) on or before the date hereof, and the current published administrative and assessing policies of the Canada Revenue Agency (“CRA”). It is assumed that all such amendments will be enacted as currently proposed, and that there will be no other material change to any applicable law or administrative or assessing practice, although no assurance can be given in these respects. Except as otherwise expressly provided, this summary does not take into account any provincial, territorial or foreign tax considerations, which may differ materially from those set out herein.

This summary is of a general nature only, is not exhaustive of all possible Canadian federal income tax considerations, and is not intended to be and should not be construed as legal or tax advice to any particular U.S. Resident Holder. U.S. Resident Holders are urged to consult their own tax advisers for advice with respect to their particular circumstances. The discussion below is qualified accordingly.

Currency Conversion

For purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of Common Shares (including dividends, adjusted cost base and proceeds of disposition) must be expressed in Canadian dollars based on the rate as quoted by the Bank of Canada for the applicable day or such other rate of exchange that is acceptable to the CRA.

Dividends

A U.S. Resident Holder to whom the Company pays or is deemed to pay a dividend on the holder's Common Shares will be subject to Canadian withholding tax, and the Company will be required to withhold the tax from the dividend and remit it to the CRA for the holder's account. The rate of withholding tax under the Tax Act is 25% of the gross amount of the dividend (subject to reduction under the provisions of an applicable tax treaty). Under the Canada-U.S. Tax Convention, a U.S. Resident Holder who beneficially owns the dividend will generally be subject to Canadian withholding tax at the rate of 15% (or 5%, if the U.S. Resident Holder who beneficially owns the dividend is a company that is not fiscally transparent and which owns at least 10% of the voting stock of the Company) of the gross amount of the dividend.

Dispositions of Common Shares

A U.S. Resident Holder generally will not be subject to tax under the Tax Act in respect of a capital gain realized on the disposition or deemed disposition of a Common Share, nor will capital losses arising therefrom be recognized under the Tax Act, unless the Common Share constitutes "taxable Canadian property" to the U.S. Resident Holder for purposes of the Tax Act, and the gain is not exempt from tax pursuant to the terms of the Canada-U.S. Tax Convention.

Provided the Common Shares are listed on a "designated stock exchange", as defined in the Tax Act (which currently includes the TSXV), at the time of disposition, such shares generally will not constitute taxable Canadian property of a U.S. Resident Holder at that time, unless at any time during the 60-month period immediately preceding the disposition of the Common Shares, the following two conditions are met concurrently:

- (i) the U.S. Resident Holder, persons with whom the U.S. Resident Holder does not deal at arm's length, or any partnership in which the U.S. Resident Holder or persons with whom the U.S. Resident Holder did not deal at arm's length holds a membership interest directly or indirectly through one or more partnerships, alone or in any combination, owned 25% or more of the issued shares of any class or series of the capital stock of the Company; and
- (ii) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from, or from any combination of, real or immovable property situated in Canada, "Canadian resource properties" (as defined in the Tax Act), "timber resource properties" (as defined in the Tax Act), or options in respect of or interests in, or for civil law a right, in such properties.

Notwithstanding the foregoing, in certain other circumstances, a Common Share may be deemed to be "taxable Canadian property" to a U.S. Resident Holder for purposes of the Tax Act.

A U.S. Resident Holder who disposes or is deemed to dispose of one or more Common Shares that do not constitute taxable Canadian property generally should not thereby incur any liability for tax under the Tax Act in respect of any capital gain arising as a consequence of such disposition.

U.S. Resident Holders who may hold Common Shares that are, or may be, taxable Canadian property should consult their own tax advisors with respect to the application of Canadian capital gains taxation, any potential relief under the Canada-U.S. Tax Convention, and compliance procedures under the Tax Act, none of which is described in this summary.

F. Dividends and Paying Agents

Not applicable

G. Statement by Experts

Not applicable.

H. Documents on Display

Any statement in this Annual Report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to this Annual Report, the contract or document is deemed to modify the description contained in this Annual Report. Readers must review the exhibits themselves for a complete description of the contract or document.

We are subject to the informational requirements of the Exchange Act and file reports and other information with the SEC. The SEC maintains a website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC at <http://www.sec.gov/edgar>.

We are required to file reports and other information with the securities commissions in Canada. You are invited to read and copy any reports, statements or other information, other than confidential filings, that we file with the provincial securities commissions. These filings are also electronically available from SEDAR+, the Canadian equivalent of EDGAR. Additional information relating to the Company may be found under its profile on SEDAR+ at <http://www.sedarplus.ca>. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company securities, and securities authorized for issuance under the LTIP can be found in the Company's management information circular dated July 16, 2024, and filed under the Company's profile on SEDAR+ and EDGAR. Additional financial information is provided in the Company's annual financial statements and management's discussion and analysis for the year ended September 30, 2025, also filed under the Company's profile on SEDAR+ and EDGAR. Copies of our material contracts are kept at our registered office.

I. Subsidiary Information

Not applicable.

J. Annual Report to Security Holders

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a number of financial risks arising through the normal course of business, including interest rate risk, foreign currency risk, credit risk, and liquidity risk. Refer to Note 22 of our audited consolidated financial statements for the years ended September 30, 2025, 2024 and 2023.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

There has not been a material default in the payment of principal, interest, a sinking or purchase fund installment, or any other material default not cured within thirty days, relating to indebtedness of the Company or any of its significant subsidiaries. There are no payments of dividends by the Company in arrears, nor has there been any other material delinquency relating to any class of preference shares of the Company.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. to D.

None.

E. Use of Proceeds

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

A. Disclosure Controls and Procedures

As required by National Instrument 52-109 Certification of Disclosure in Issuers Annual and Interim Filings and Rule 13a-15(b) of the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our CEO and CFO, the effectiveness of the design and operation of our disclosure controls and procedures (“DC&P”) (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) as of the end of the period covered and disclosed by us in reports that we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rule and forms of the Canadian Securities Administrators and SEC.

Based upon the evaluation, our CEO and CFO have concluded that our DC&P were effective as of September 30, 2025, at the reasonable assurance level. Our CEO and CFO and the Company’s management have concluded that the consolidated financial statements included in this Annual Report present fairly, in all material respects, the financial position of the Company as at September 30, 2025 in conformance with IFRS and our external auditors have issued an unqualified opinion on our consolidated financial statements as of and for the year ended September 30, 2025.

B. Management’s Annual Report on Internal Control Over Financial Reporting

In accordance with National Instrument 52-109 Certification of Disclosure in Issuer’s Annual and Interim Filings and as required by Rule 13a-15(f) of the Exchange Act, management is responsible for establishing and maintaining adequate internal controls over financial reporting (“ICFR”). The Company’s management, including the CEO and CFO, designed ICFR based on the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “COSO Framework”) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

ICFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. ICFR has inherent limitations. ICFR is a process that involves human diligence and compliance and is subject to lapses in judgement and breakdowns resulting from human failures. ICFR also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by ICFR. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management, under the supervision of the CEO and CFO, has assessed the effectiveness of the Company's internal control over financial reporting as of September 30, 2025, based on the criteria set forth in the COSO Framework. Based on this assessment, management has concluded that the Company's ICFR was effective as of September 30, 2025

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Additionally, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

For the year ended September 30, 2025, DEFSEC is considered an Emerging Growth Company and, thus, is excluded from the audit requirements of Section 404(b) of SOX. Accordingly, the Company's auditors have not issued a report on the effectiveness of Internal Controls over Financial Reporting.

C. Attestation Report of Registered Public Accounting Firm

This Annual Report does not include an attestation report of the Company's registered public accounting firm because emerging growth companies are exempt from this requirement for so long as they remain emerging growth companies.

D. Changes in Internal Controls Over Financial Reporting

In Fiscal 2025, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

The Board has determined that Paul Mangano and James Yersh qualify as a financial experts (as defined in Item 407(d)(5)(ii) of Regulation S-K under the Exchange Act) and Rule 5605(c)(2)(A) of The Nasdaq Stock Market Rules; and (ii) are independent (as determined under Exchange Act Rule 10A-3 and Rule 5605(a)(2) of The Nasdaq Stock Market Rules).

The SEC has indicated that the designation or identification of a person as an audit committee financial expert does not make such person an "expert" for any purpose, impose any duties, obligations or liability on such person that are greater than those imposed on members of the audit committee and the Board who do not carry this designation or identification, or affect the duties, obligations or liability of any other member of the audit committee or Board.

ITEM 16B. CODE OF ETHICS

Effective January 16, 2023, we adopted a Code of Business Conduct and Ethics applicable to all of our directors, officers and employees, including our CEO and CFO, which is a "code of ethics" as defined in section 406(c) of SOX. The Code of Business Conduct and Ethics sets out the fundamental values and standards of behavior that we expect from our directors, officers and employees with respect to all aspects of our business. A copy of the Code of Business Conduct is filed as Exhibit 11.1 to this Annual Report.

If we grant any waiver of the Code of Business Conduct and Ethics, whether explicit or implicit, to a director or executive officer, we will disclose the nature of such waiver on its website to the extent required by, and in accordance with, the rules and regulations of the SEC.

The full text of the Code of Business Conduct and Ethics is also posted on our website at www.defsec.com and the System for Electronic Document Analysis and Retrieval (SEDAR+) profile at www.sedarplus.ca. The information on or accessible through the website is not part of and is not incorporated by reference into this Annual Report, and the inclusion of the website address in this Annual Report is only for reference.

The Audit Committee is responsible for reviewing and evaluating the Code of Business Conduct and Ethics periodically and will recommend any necessary or appropriate changes thereto to the Board for consideration. The Audit Committee will also assist the Board with the monitoring of compliance with the Code of Business Conduct and Ethics.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Aggregate fees paid and payable to our external auditors MNP (PCAOB ID 1930) during the financial years ended September 30, 2025, and 2024 were as follows:

	2025 Fee Amount (\$)	2024 Fee Amount (\$)
Audit Fees ⁽¹⁾	\$ 406,998	\$ 326,350
Audit-Related Fees ⁽²⁾	124,946	152,486
Tax Fees ⁽³⁾	—	22,470
All Other Fees ⁽⁴⁾	—	—
Total:	\$ 531,944	\$ 501,306

Notes:

- (1) “Audit fees” include fees rendered by the Company’s external auditor for professional services necessary to perform the annual audit, quarterly reviews of the Company’s financial statements, services rendered in connection with the filing of prospectuses in the United States and Canada, and review of documents filed with the SEC and consents and other services normally provided in connection with statutory and regulatory filings or engagements. This includes fees for the review of tax provisions and for accounting consultations on matters reflected in the financial statements.
- (2) “Audit-related fees” include fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company’s financial statements and that are not included in the “Audit Fees” category.
- (3) “Tax fees” include fees for professional services rendered by the Company’s external auditor for tax compliance, tax advice and tax planning.
- (4) “All other fees” include fees for products and services provided by the Company’s external auditor, other than services reported under the table headings “Audit Fees”, “Audit-Related Fees” or “Tax Fees”.

Pre-Approval Policies and Procedures

Under its charter, the Audit Committee is required to pre-approve all non-audit services to be performed by the external auditors in relation to us, together with approval of the engagement letter for such non-audit services and estimated fees thereof. The pre-approval process for non-audit services will also involve consideration of the potential impact of such services on the independence of the external auditors.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

ITEM 16F. CHANGE IN COMPANY'S CERTIFYING ACCOUNTANT

KPMG, the Company's former independent auditor, resigned effective May 15, 2024. MNP was engaged as the Company's new independent auditor, effective May 22, 2024.

KPMG's audit report relating to the financial statements of the Company as of and for the fiscal years ended September 30, 2023 did not contain an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles, except that KPMG's report on the consolidated financial statements of the Company as of and for the years ended September 30, 2023 contained a separate paragraph stating:

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2(a) to the consolidated financial statements, the Company has incurred significant losses and negative cash flows from operations since inception that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2(a). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

During KPMG's engagement and up to the interim period before KPMG's resignation, there had been no "disagreements" (as described in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) between KPMG and us on any matter of accounting principles or practices, financial statement disclosure or auditing scope and procedures which, if not resolved to the satisfaction of KPMG, would have caused KPMG to make reference to such matters in their reports, and there had been no "reportable events" of the type described in Item 304(a)(1)(v) of Regulation S-K.

We furnished a copy of the disclosures in this Annual Report to KPMG, requesting that KPMG furnish us with a letter addressed to the SEC stating whether it agrees with the above statements or, if not, stating the respects in which it does not agree. A copy of the letter has been filed as Exhibit 16.1 to the registration statement of which this Annual Report is a part.

ITEM 16G. CORPORATE GOVERNANCE

The Company is a "foreign private issuer" as defined in Rule 3b-4 under the Exchange Act and the Common Shares are listed on Nasdaq. Rule 5615(a)(3) of The Nasdaq Stock Market Rules permits foreign private issuers to follow home country practices in lieu of certain provisions of The Nasdaq Stock Market Rules. A foreign private issuer that follows home country practices in lieu of certain provisions of Nasdaq Stock Market Rules must disclose ways in which its corporate governance practices differ from those followed by domestic companies either on its website or in the annual report that it distributes to shareholders in the United States. A description of the ways in which the Company's governance practices differ from those followed by domestic companies pursuant to Nasdaq standards are as follows:

- *Shareholder Meeting Annual Requirement:* Nasdaq Stock Market Rule 5620(a) ("Rule 5620(a)") requires that each company listing common stock or voting preferred stock, and their equivalents, shall hold an annual meeting of shareholders no later than one year after the end of the company's fiscal year-end. In lieu of following Rule 5620(a), the Company has elected to follow Canadian practices consistent with the requirements of the TSXV and the BCBCA.
- *Shareholder Meeting Quorum Requirement:* Nasdaq Stock Market Rule 5620(c) ("Rule 5620(c)") requires that the minimum quorum requirement for a meeting of shareholders be 33 1/3 % of the outstanding Common Shares. In addition, Rule 5620(c) requires that an issuer listed on Nasdaq state its quorum requirement in its by-laws. In lieu of following Rule 5620(c), the Company has elected to follow Canadian practices consistent with the requirements of the TSXV and the BCBCA.
- *Independent Nominating Committee:* Nasdaq Stock Market Rule 5605(e)(1) ("Rule 5605(e)(1)") requires having a Nominations Committee comprised solely of independent directors. In lieu of following Rule 5605(e)(1), the Company has elected to follow Canadian practices consistent with the requirements of the TSXV and the BCBCA.
- *Independent Compensation Committee:* Nasdaq Stock Market Rule 5605(d)(2) ("Rule 5605(d)(2)") requires having a Compensation Committee comprised solely of independent directors. In lieu of following Rule 5605(d)(2), the Company has elected to follow Canadian practices consistent with the requirements of the TSXV and the BCBCA.

- *Shareholder Approval Requirement:* Nasdaq Stock Market Rule 5635(d) (“Rule 5635(d)”) requires shareholder approval prior to a transaction involving the sale or issuance of a company’s common stock (or securities convertible into or exercisable for its common stock): (i) at a price below the greater of book value or market value; and (ii) which together with sales by officers, directors, or substantial stockholders, is equal to 20% or more of the company’s outstanding shares of common stock or 20% or more of the voting power prior to issuance. In lieu of following Rule 5635(d), the Company has elected to follow Canadian practices consistent with the requirements of the TSXV and the BCBCA.
- *Majority Independent Directors:* Nasdaq Stock Market Rule 5605(b)(1) requires having a majority of the Board comprised of “Independent Directors” as defined in Nasdaq Stock Market Rule 5605(a)(2). In lieu of following Nasdaq Stock Market Rule 5605(e)(1), the Company has elected to follow Canadian practices consistent with the requirements of the TSXV and the BCBCA.
- *Executive Sessions:* Nasdaq Stock Market Rule 5605(b)(2) requires companies to have their Independent Directors regularly schedule meetings at which only Independent Directors are present. In lieu of following Nasdaq Stock Market Rule 5605(b)(2), the Company has elected to follow Canadian practices consistent with the requirements of the TSXV and the BCBCA.
- *Audit Committee Charter:* Nasdaq Stock Market Rule 5605(c)(1) requires companies to adopt a formal written audit committee charter that specifies the scope of its responsibilities and the means by which it carries out those responsibilities; the outside auditor’s accountability to the audit committee; and the audit committee’s responsibility to ensure the independence of the outside auditor. In lieu of following Nasdaq Stock Market Rule 5605(c)(1), the Company has elected to follow Canadian practices consistent with the requirements of the TSXV and the BCBCA.
- *Compensation Committee Charter:* Nasdaq Stock Market Rule 5605(d)(1) requires companies to adopt a formal written compensation committee charter and have a compensation committee review and reassess the adequacy of the charter on an annual basis. In lieu of following Nasdaq Stock Market Rule 5605(d)(1), the Company has elected to follow Canadian practices consistent with the requirements of the TSXV and the BCBCA.
- *Independent Director Oversight of Director Nominations:* Nasdaq Stock Market Rule 5605(e)(1) requires Independent Director involvement in the selection of director nominees, by having a nominations committee comprised solely of Independent Directors. In lieu of following Nasdaq Stock Market Rule 5605(e)(1), the Company has elected to follow Canadian practices consistent with the requirements of the TSXV and the BCBCA.
- *Nominations Committee Charter:* Nasdaq Stock Market Rule 5605(e)(2) requires companies to adopt a formal written nominations committee charter or board resolution, as applicable, addressing the director nomination process and such related matters as may be required under the federal securities laws. In lieu of following Nasdaq Stock Market Rule 5605(e)(2), the Company has elected to follow Canadian practices consistent with the requirements of the TSXV and the BCBCA.

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

ITEM 16J. INSIDER TRADING POLICIES

DEFSEC has adopted an insider trading policy (the “Insider Trading Policy”), which governs the purchase, sale, and other disposal of the Company’s securities by directors, executive officers, and employees. DEFSEC believes that the Insider Trading Policy is reasonably designed to promote compliance with applicable insider trading laws, rules and regulations, and any listing standards applicable to DEFSEC.

A copy of the Insider Trading Policy is contained in DEFSEC’s Information Disclosure Policy, which is filed as Exhibit 11.2 to this Annual Report.

ITEM 16K. CYBERSECURITY

Risk Management and Strategy

As of the date of the filing of this Annual Report, the Company has information systems in place and has not suffered a “cybersecurity threat” (as defined in Item 106(a) of Regulation S-K) or “cybersecurity incident” (as defined in Item 106(a) of Regulation S-K). Moreover, the Company is aware of the evolution of cybersecurity risks and is taking proactive steps by keeping up to date our information systems and educating our personnel about these risks.

In order to mitigate these risks to a degree, the Company has engaged a third-party IT provider, Better Networks.

The Company has implemented multiple measures to combat and reduce the risk of cybersecurity threats and cybersecurity incidents such as:

- engaged a third-party IT provider;
- developed internal System Use Policy and Information Security Policies reviewed by the Board enhancing security and awareness of potential threats; and
- engaged BDO LLP to assist with improving internal controls, including IT controls.

Governance

The third-party IT provider monitors cybersecurity risks and potential incidents while management periodically reviews the System Use Policy and Information Security policies recommending updates to the policies where needed. Select members of the Company’s management, who also receive direct coaching from the third-party IT provider, advise the Board on cybersecurity risk management strategies.

At the time of filing this Annual Report the Company does not have a subcommittee dedicated to cybersecurity. However, as the Company’s situation evolves, the Board will consider increased oversight to manage the risks from cybersecurity threats.

PART III

ITEM 17. FINANCIAL STATEMENTS

See Item 18. – *Financial Statements*.

ITEM 18. FINANCIAL STATEMENTS

Our audited consolidated financial statements and schedules appear on pages F-1 through F-58 of this Annual Report and are incorporated herein by reference. Our audited financial statements as prepared by our management and approved by the Board include:

Consolidated Financial Statements for the Years Ended September 30, 2025, 2024 and 2023	
Independent Auditors' Reports	F-1
Consolidated Statements of Financial Position	F-3
Consolidated Statements of Net Loss and Comprehensive Loss	F-4
Consolidated Statements of Changes in Shareholders' Equity	F-5
Consolidated Statements of Cash Flows	F-6
Notes to the Consolidated Financial Statements	F-7

[Table of Contents](#)



Consolidated Financial Statements of

DEFSEC TECHNOLOGIES INC.
(Formerly KWESST MICRO SYSTEMS INC.)

Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian Dollars)

[Table of Contents](#)

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Table of contents for the years ended September 30, 2025, 2024 and 2023

	<u>Page</u>
Independent Auditor's Report	F-1
FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	F-3
Consolidated Statements of Net Loss and Comprehensive Loss	F-4
Consolidated Statements of Changes in Shareholders' Equity	F-5
Consolidated Statements of Cash Flows	F-6
Notes to the Consolidated Financial Statements	F-7-F-58

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of DEFSEC Technologies Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of DEFSEC Technologies Inc. (the “Company”) (formally Kwest Micro Systems Inc.) as of September 30, 2025 and 2024, and the related consolidated statements of net loss and comprehensive loss, changes in shareholders’ equity (deficit), and cash flows for each of the years in the two year period ended September 30, 2025, and the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of September 30, 2025 and 2024, and the results of its consolidated operations and its consolidated cash flows for each of the years in the two year period ended September 30, 2025, in conformity with IFRS® Accounting Standards as issued by the International Accounting Standards Board.

We have also audited the effects of the adjustments to retrospectively apply the 2025 reverse stock split as described in note 1(b) and the effect of the stock split as described in Note 15, 16 and 17 to the 2023 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2023 consolidated financial statements of the Company other than with respect to the adjustments above and, accordingly, we do not express an opinion or any other form of assurance on the 2023 consolidated financial statements taken as a whole.

Material Uncertainty Related to Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2(a) to the consolidated financial statements, the Company has suffered a net loss and negative operating cash flows and has an accumulated deficit which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2(a). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ MNP LLP

Chartered Professional Accountants;

Licensed Public Accountants

We have served as the Company’s auditor since 2024.

Ottawa, Canada

December 29, 2025



KPMG LLP
150 Elgin Street, Suite 1800
Ottawa, ON K2P 2P8
Canada
Telephone 613 212 5764
Fax 613 212 2896

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.):

Opinion on the Consolidated Financial Statements

We have audited, before the effects of the retrospective adjustments relating to the reverse stock split as described in Note 1(b) and the effect of the stock split as described in Notes 15, 16, 17, the accompanying consolidated statements of net loss and comprehensive loss, shareholders' equity (deficit), and cash flows for the year ended September 30, 2023, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of operations and its cash flows for each of the year ended September 30, 2023, in conformity with International Financial Reporting Standards as issued by the International Accounting Standard Board.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2(a) to the consolidated financial statements, the Company has incurred significant losses and negative cash flows from operations since inception that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2(a). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

We served as the Company's auditor from 2021 to 2024.

Ottawa, ON

January 17, 2024, except for Note 1(c) as to which the date is October 25, 2024

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Consolidated Statements of Financial Position
At September 30, 2025 and 2024
(Expressed in Canadian dollars)

	Notes	September 30, 2025	September 30, 2024
ASSETS			
Cash and cash equivalents		\$ 6,686,429	\$ 256,828
Restricted short-term investment	12	47,500	30,000
Trade and other receivables	4	1,494,152	567,875
Inventories	5	519,609	533,163
Prepaid expenses and other		163,562	179,051
Deferred costs	27	34,773	275,438
Current assets		8,946,025	1,842,355
Property and equipment	6	279,132	311,712
Right-of-use assets	7	1,165,181	230,124
Deposit		46,132	28,806
Intangible assets	8	2,390,030	3,174,832
Deferred costs		94,976	29,319
Non-current assets		3,975,451	3,774,793
Total Assets		\$ 12,921,476	\$ 5,617,148
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Accounts payable and accrued liabilities	9	\$ 2,310,662	\$ 1,660,637
Accrued royalties liability	10	200,000	200,000
Lease obligations	13	188,907	147,078
Contract liabilities	14	7,671	120,571
Warrant liabilities	15	210,965	847,295
Current liabilities		2,918,205	2,975,581
Accrued royalties liability	10	1,087,009	1,118,135
Lease obligations	13	1,114,543	155,145
Non-current liabilities		2,201,552	1,273,280
Total Liabilities		5,119,757	4,248,861
Shareholders' Equity			
Share capital	16	47,003,991	37,822,725
Warrants	16	7,764,412	1,084,687
Contributed surplus	16	5,398,445	5,152,753
Accumulated other comprehensive loss		(85,077)	(38,520)
Accumulated deficit		(52,280,052)	(42,653,358)
Total Shareholders' Equity		7,801,719	1,368,287
Total Liabilities and Shareholders' Equity		\$ 12,921,476	\$ 5,617,148

See Note 2(a) Going Concern and Note 25 Commitments and contingencies.
See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors:
(signed) James Yersh, _____ Director

(signed) David Luxton, _____ Director

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Consolidated Statements of Net Loss and Comprehensive Loss
Years ended September 30, 2025, 2024 and 2023
(Expressed in Canadian dollars)

	Notes	September 30, 2025	September 30, 2024	September 30, 2023
Revenue	18	\$ 4,942,626	\$ 1,504,328	\$ 1,234,450
Cost of sales		(3,204,578)	(1,017,826)	(1,425,828)
Gross profit (loss)		1,738,048	486,502	(191,378)
Operating expenses				
General and administrative	19	5,225,997	4,836,815	6,165,297
Selling and marketing	19	2,037,088	1,525,228	2,892,679
Research and development, net	19	2,367,995	2,354,160	1,529,572
Share-based compensation		113,692	291,761	373,554
Depreciation and amortization		1,073,727	1,277,911	952,508
Total operating expenses		10,818,499	10,285,875	11,913,610
Operating loss		(9,080,451)	(9,799,373)	(12,104,988)
Other income (expenses)				
Share issuance costs	16(a)	(1,807,686)	(541,566)	(1,985,074)
Net finance costs	20	(173,375)	(196,323)	(668,034)
Foreign exchange gain (loss)		114,347	59,191	(98,275)
Impairment of right-of-use assets		(88,596)	—	—
Gain/loss on disposals		6,809	(7,256)	(291,181)
Change in fair value of warrant liabilities	15	1,402,258	3,047,568	5,841,192
Total other income (expenses), net		(546,243)	2,361,614	2,798,628
Loss before income taxes		(9,626,694)	(7,437,759)	(9,306,360)
Income tax recovery				
Deferred tax recovery	21	—	—	—
Net loss		\$ (9,626,694)	\$ (7,437,759)	\$ (9,306,360)
Other comprehensive income (loss):				
<i>Items that are or may be reclassified subsequently to profit or loss</i>				
Foreign currency translation differences		(46,557)	1,143	61,755
Total comprehensive loss		\$ (9,673,251)	\$ (7,436,616)	\$ (9,244,605)
Net loss per share				
Basic and diluted	17	\$ (15.78)	\$ (188.86)	\$ (478.85)
Weighted average number of shares outstanding				
Basic and diluted	17	610,169	39,382	19,435

See accompanying notes to the consolidated financial statements.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Consolidated Statements of Changes in Shareholders' Equity
Years ended September 30, 2025, 2024 and 2023
(Expressed in Canadian dollars)

	Notes	Common Shares ⁽¹⁾	Share capital	Warrants	Contributed surplus	Translation reserve	Deficit	Total Shareholders' Equity
Balance, September 30, 2022		3,682	\$ 19,496,640	\$ 1,959,796	\$ 3,551,330	\$ (101,418)	\$ (25,909,239)	\$ (1,002,891)
Shares issued for public offering	16(a)	22,706	16,725,436	—	—	—	—	16,725,436
Share offering costs	16(a)	—	(3,671,791)	393,911	125,086	—	—	(3,152,794)
Shares issued for debt	16(a)	267	233,485	—	—	—	—	233,485
Options exercised	16(c)	5	5,836	—	(1,789)	—	—	4,047
Warrants exercised	16(b)	17	60,000	(60,000)	—	—	—	—
Warrants expired	16(b)	—	—	(1,251,050)	1,251,050	—	—	—
Share-based compensation	16(c)	—	—	—	373,554	—	—	373,554
Shares for vested RSUs and PSUs	16(c)	67	529,504	—	(529,504)	—	—	—
Vested RSUs and PSUs repurchased	—	—	—	—	(612)	—	—	(612)
Other comprehensive loss	—	—	—	—	—	61,755	—	61,755
Net loss	—	—	—	—	—	—	(9,306,360)	(9,306,360)
Balance, September 30, 2023		26,744	\$ 33,379,110	\$ 1,042,657	\$ 4,769,115	\$ (39,663)	\$ (35,215,599)	\$ 3,935,620
Shares issued for public offering	16(a)	39,761	3,608,154	133,907	—	—	—	3,742,061
Share offering costs	16(a)	—	(1,033,393)	—	—	—	—	(1,033,393)
Warrants exercised	16(b)	8,473	1,771,239	—	—	—	—	1,771,239
Shares issued for debt	16(a)	222	97,615	—	—	—	—	97,615
Warrants expired	16(b)	—	—	(91,877)	91,877	—	—	—
Share-based compensation	16(c)	—	—	—	291,761	—	—	291,761
Other comprehensive loss	—	—	—	—	—	1,143	—	1,143
Net loss	—	—	—	—	—	—	(7,437,759)	(7,437,759)
Balance, September 30, 2024		75,200	\$ 37,822,725	\$ 1,084,687	\$ 5,152,753	\$ (38,520)	\$ (42,653,358)	\$ 1,368,287
Shares issued for public offering	16(a)	676,894	3,271,209	—	—	—	—	3,271,209
Shares issued for private placement	16(a)	50,248	371,154	—	—	—	—	371,154
Warrants issued for private placement	16(a)	—	—	5,724,586	—	—	—	5,724,586
Warrants issued for public offering	16(a)	—	—	3,651,131	—	—	—	3,651,131
Pre-funded warrants issued for public offering	16(b)	—	—	3,710,729	—	—	—	3,710,729
Pre-funded warrants issued for private placement	16(a)	—	—	1,249,522	—	—	—	1,249,522
Share issuance costs	16(a)	—	(795,253)	(2,442,700)	—	—	—	(3,237,953)
Shares issued for debt	16(a)	5,669	100,000	—	—	—	—	100,000
Pre-funded warrants exercised	16(b)	571,643	5,606,428	(4,813,793)	—	—	—	792,635
Warrants exercised	16(b)	16,667	627,728	(267,750)	—	—	—	359,978
Warrants expired	16(b)	—	—	(132,000)	132,000	—	—	—
Share-based compensation	16(c)	—	—	—	113,692	—	—	113,692
Other comprehensive loss	—	—	—	—	—	(46,557)	—	(46,557)
Net loss	—	—	—	—	—	—	(9,626,694)	(9,626,694)
Balance, September 30, 2025		1,396,321	\$ 47,003,991	\$ 7,764,412	\$ 5,398,445	\$ (85,077)	\$ (52,280,052)	\$ 7,801,719

(1) See Notes 1(b) and (c)

See accompanying notes to the consolidated financial statements.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Consolidated Statements of Cash Flows
Years ended September 30, 2025, 2024 and 2023
(Expressed in Canadian dollars)

	Notes	September 30, 2025	September 30, 2024	September 30, 2023
OPERATING ACTIVITIES				
Net loss		\$ (9,626,694)	\$ (7,437,759)	\$ (9,306,360)
<i>Items not affecting cash:</i>				
Depreciation and amortization	6,7,8	1,081,590	1,277,911	952,508
Share-based compensation	16(c)	113,692	291,761	373,554
Change in fair value of warrant liabilities (including related foreign exchange gain)	15	(1,325,549)	(3,047,568)	(5,786,593)
Net finance costs	20	173,375	196,323	668,034
Impairment of intangible assets	8	—	—	1,169,440
Impairment of ROU asset	7	72,868	—	—
Loss on disposals		—	7,256	291,181
Gain on debt settlement	7	(500)	—	—
Unrealized foreign exchange loss	7	29,637	—	—
Changes in non-cash working capital items	23	(358,246)	(343,671)	(2,310,266)
Interest received (paid)		74,896	(4,997)	(130,127)
Add back items not affecting operating activities:				
Share issuance costs		1,807,686	—	—
Cash used in operating activities		(7,957,245)	(9,060,744)	(14,078,629)
INVESTING ACTIVITIES				
Additions of property and equipment	6	(140,620)	(101,330)	(176,949)
Investments in intangible assets	8	(26,675)	(9,823)	(1,123,186)
Purchase of restricted short-term investment	12	(17,500)	—	—
Deposit for advanced royalties	10	—	—	(148,410)
Recognition of open orders from acquisition	8	4,387	—	7,811
Cash flows used in investing activities		(180,408)	(111,153)	(1,440,734)
FINANCING ACTIVITIES				
Proceeds from U.S. IPO and Canadian Offering, net	16(a)	—	—	16,346,768
Proceeds from the issuance of common shares and warrants	15, 16(a)	18,718,524	4,965,680	7,357,012
Payments of share offering costs	16(a)	(4,346,838)	(747,926)	(542,591)
Payments of lease obligations	13	(172,153)	(197,651)	(75,487)
Proceeds from exercise of warrants	16(b)	402,837	1,613	—
Repayment of borrowings		—	—	(2,333,315)
Proceeds from exercise of stock options		—	—	4,052
Repurchase of vested RSUs and PSUs		—	—	(612)
Cash flows provided by financing activities		14,602,370	4,021,716	20,755,827
Net change in cash during the year		6,464,717	(5,150,181)	5,236,464
Cash and cash equivalents, beginning of year		256,828	5,407,009	170,545
Effect of exchange rates on cash		(35,116)	—	—
Cash and cash equivalents, end of year		\$ 6,686,429	\$ 256,828	\$ 5,407,009
Cash and cash equivalents consist of the following:				
Cash held in banks		\$ 6,686,429	\$ 256,828	\$ 4,407,009
Short-term guaranteed investment certificates		—	—	1,000,000
Cash and cash equivalents, end of year		\$ 6,686,429	\$ 256,828	\$ 5,407,009

See accompanying notes to the consolidated financial statements

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

1. Corporate information

(a) Corporate information

KWESST Micro Systems Inc. (the “Company”, “KWESST”) was incorporated on November 28, 2017, under the laws of the Province of British Columbia. The registered office is located at 550 Burrard Street, Suite 2900, Vancouver, British Columbia, Canada, and the corporate office is located at Unit 300, 80 Hines Rd., Ottawa, Ontario, Canada. The Company has representative offices in the following foreign locations: Washington DC (United States), London (United Kingdom), and Abu Dhabi (United Arab Emirates).

On June 30, 2025, the Company changed its name to “DEFSEC Technologies Inc.” (“DEFSEC”).

The Company develops and commercializes next-generation technology solutions that deliver a tactical advantage for military, public safety agencies and personal defense markets. The Company’s core mission is to protect and save lives.

DEFSEC’s common stock is listed on the TSX-Venture Exchange (“TSX-V”) under the stock symbol of DFSC, on the Nasdaq Capital Market (“Nasdaq”) under the stock symbol of DFSC and on the Frankfurt Stock Exchange under the stock symbol of 62U2. Additionally, warrants issued in the United States are also listed on the Nasdaq under the stock symbol of DFSCW. Effective May 1, 2023, the warrants issued in Canada are listed on the TSX-V under the stock symbol of DFSC.WT.U.

(b) 2025 Reverse Stock Split (applied retrospectively)

On April 23, 2025, on Nasdaq and on April 24, 2025, on the TSX-V, DEFSEC effected a twenty-one for one (21-for-1) reverse stock split of its common stock (the “2025 Reverse Split”). Accordingly, all shareholders of record at the opening of business on April 23, 2025, received one issued and outstanding common share of DEFSEC in exchange for twenty-one outstanding common shares of DEFSEC. No fractional shares were issued in connection with the 2025 Reverse Split. All fractional shares created by the 2025 Reverse Split were rounded to the nearest whole number of common shares, with any fractional interest representing 0.5 or more common shares entitling holders thereof to receive one whole common share.

Effective on the date of the 2025 Reverse Split, the exercise price and number of common shares issuable upon the exercise of outstanding stock options and warrants were proportionately adjusted to reflect the 2025 Reverse Split. All information respecting outstanding common shares, including net loss per share, in the current and comparative periods presented herein give effect to the 2025 Reverse Split.

(c) 2024 Reverse Stock Split (applied retrospectively)

In October 2024, DEFSEC effected a ten for one (10-for-1) reverse stock split of its common stock on October 23, 2024 (the “2024 Reverse Split”). Accordingly, all shareholders of record at the opening of business on October 23, 2024, received one issued and outstanding common shares of DEFSEC in exchange for ten outstanding common shares of DEFSEC. No fractional shares were issued in connection with the 2024 Reverse Split. All fractional shares created by the 2024 Reverse Split were rounded to the nearest whole number of common shares, with any fractional interest representing 0.5 or more common shares entitling holders thereof to receive one whole common share.

Effective on the date of the 2024 Reverse Split, the exercise price and number of common shares issuable upon the exercise of outstanding stock options and warrants were proportionately adjusted to reflect the 2024 Reverse Split. All information respecting outstanding common shares, including net loss per share, in the current and comparative periods presented herein give effect to the 2024 Reverse Split.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements

Years ended September 30, 2025, 2024 and 2023.

(Expressed in Canadian dollars)

2. Basis of preparation

(a) Going concern

These consolidated financial statements have been prepared assuming the Company will continue as a going concern. The going concern basis of presentation assumes the Company will continue in operation for the foreseeable future and can realize its assets and discharge its liabilities and commitments in the normal course of business.

As an early-stage company, it has not yet reached significant revenue levels for most of its products and services and have incurred significant losses and negative operating cash flows from inception that have primarily been funded from financing activities. The Company has incurred a \$9.6 million net loss and negative operating cash flows of approximately \$8.0 million for the year ended September 30, 2025 (2024 - \$7.4 million net loss and negative operating cash flows of \$9.1 million, 2023 - \$9.3 million net loss and negative operating cash flows of \$14.1 million). At September 30, 2025, the Company had positive working capital of \$6.0 million (2024 - negative working capital of \$1.1 million, 2023 - positive working capital of \$0.5 million) and a deficit of \$52.3 million (September 30, 2024 - \$42.7 million, September 30, 2023 - \$35.2 million).

The Company's ability to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business is dependent upon closing timely additional sales orders, timely commercial launch of new products, and the ability to raise additional debt or equity financing, when required. There are various risks and uncertainties affecting our future financial position and our performance including, but not limited to:

- The market acceptance and rate of sales of the Company's product offerings;
- The Company's ability to grow its digitization services business;
- Ability to successfully execute the Company's business plan;
- Ability to raise additional capital at acceptable terms;
- General local and global economic conditions, including the ongoing conflict in Gaza and the global disruption from Russia's invasion of Ukraine; and
- Risks related to United States tariffs, including potential supply chain disruptions, required operational adjustments, increased costs and potential logistical disruptions.

The Company's strategy to mitigate these material risks and uncertainties is to execute a business plan, in a timely manner, aimed at continued focus on revenue growth, product development and innovation, improving overall gross profit, managing operating expenses and working capital requirements, and securing additional capital, as needed.

Failure to implement its business plan could have a material adverse effect on the Company's financial condition and/or financial performance. There is no assurance that the Company will be able to raise additional capital as they are required in the future. Accordingly, there are material risks and uncertainties that may cast substantial doubt about the Company's ability to continue as a going concern.

These consolidated financial statements do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate.

(b) Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS® Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

The consolidated financial statements were authorized for issue by the Board of Directors effective on December 29, 2025.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements

Years ended September 30, 2025, 2024 and 2023.

(Expressed in Canadian dollars)

(c) Basis of consolidation

These consolidated financial statements incorporate the financial statements of DEFSEC and the entities it controls.

Control is achieved where we have the power to govern the financial and operating policies of an entity to obtain benefits from its activities, are exposed to, or have rights to, variable returns from the Company's involvement with the entity and have the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to us until the date on which control ceases. Profit or loss of subsidiaries acquired during the year are recognized from the date of acquisition or effective date of disposal as applicable. All intercompany transactions and balances have been eliminated.

At September 30, 2025, the Company has the following wholly-owned subsidiaries:

Entity	Location	Functional Currency	Equity %
KWESST Inc.	Ottawa, Canada	CAD	100 %
2720178 Ontario Inc.	Ottawa, Canada	CAD	100 %
Police Ordnance Company Inc.	Ottawa, Canada	CAD	100 %
KWESST U.S. Holdings Inc.	Delaware, United States	USD	100 %
KWESST Defense Systems U.S. Inc.	North Carolina, United States	USD	100 %
KWESST Public Safety Systems U.S. Inc.	North Carolina, United States	USD	100 %
KWESST Public Safety Systems Canada Inc.	Ottawa, Canada	CAD	100 %

(d) Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars ("CAD"), which is the functional and presentation currency.

While each of the Company's subsidiaries has its own functional currency, the functional currency of the parent company, DEFSEC, is CAD as this is the currency of the primary economic environment in which the Company operates. Most of the revenues, cost of revenues and operating expenses from significant subsidiaries are denominated in CAD. The Company's Canadian wholly owned subsidiaries are measured using CAD as the functional currency and its U.S. owned subsidiaries are measured using the United States dollar ("USD") as their functional currency.

(e) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

(f) Use of estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income, expenses, and disclosure of contingent liabilities. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements

Years ended September 30, 2025, 2024 and 2023.

(Expressed in Canadian dollars)

Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in these consolidated financial statements is included in the following notes:

- **Impairment:** The Company is required to make a judgment regarding whether indicators of impairment exist at each reporting date by evaluating conditions specific to the organization that may lead to the impairment of assets. The assessment of impairment or impairment reversal indicators is based on management's judgement of whether there are internal and external factors indicating impairment. Such factors including: market decline, adverse changes in technology, legal environment, or economic conditions, and evidence of obsolescence.

Estimates

Information about assumptions and estimation uncertainties at September 30, 2025, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- **Note 5 – Inventories:** assumptions used in evaluating inventory obsolescence.
- **Note 15 – Warrant liabilities:** whether the valuation assumptions used in the Black Scholes calculations for the warrant liabilities are reasonable, including DEFSEC's stock volatility, and expected life are reasonable in light of its limited operating history.
- **Note 16(c) - Share-based compensation:** whether the determination of DEFSEC's stock volatility, forfeiture rate, and expected life are reasonable in light of its limited operating history, all significant inputs in the valuation model to fair value options granted; and
- **Note 18 – Revenue:** key assumptions underlying the recognition of revenue based on percentage of completion, including remaining hours and costs to complete.
- **Note 7 and 13 – Right-of-use assets and lease liabilities:** To determine the value of the initial recognition of right-of-use assets and lease obligations, management is required to exercise judgment in several areas, such as determining the appropriate discount rate, whether it is reasonably certain that an extension or termination option will be exercised, whether variable payments are in substance fixed, and whether a right-of-use asset is impaired. The Company enters into leases with third-party landlords and as a consequence the rate implicit in the relevant lease is not readily determinable. Therefore, the Company uses its incremental borrowing rate as the discount rate for determining its lease liabilities at the lease commencement date. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over similar terms which requires estimations when no observable rates are available. Changes in these estimates and assumptions could affect the identification and determination of the value of lease liabilities and right-of-use assets at initial recognition. These items could potentially result in changes to amounts reported in the consolidated statements of loss and statements of financial position in a given period.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

3. Material accounting policies

(a) Revenue recognition

Revenue is recognized upon transfer of control of products or services to customers at an amount that reflects the transaction price the Company expects to receive in exchange for the products or services. The Company's 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 based on the stand-alone selling price of each performance obligation. When the fair value cannot be determined based on when it was sold separately, the Company determines a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction by using either a market assessment, expected cost plus a margin or a residual approach.

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. Contracts based on task oriented, time and materials are measured based on agreed-upon hourly rates, direct labor hours expended, and material costs incurred and billed and recognized on a monthly basis. For product sales, revenue is recognized when the Company transfers control of the product to the customer. Control of the product transfers when the customer takes delivery of the product.

For performance obligations satisfied over time, the Company recognizes 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 the performance of DEFSEC 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, the Company 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 a loss is recognized in its entirety in the period it becomes known.

The Company 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, the Company allocates 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. When the fair value cannot be determined based on when it was sold separately, the Company determines a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction. The Company determines a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction by using either a market assessment, expected cost plus a margin or a residual approach.

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).

The Company accounts 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 to a price which reflects DEFSEC's stand-alone selling price of the additional promised goods or services. When the contract modification is not accounted for as a separate contract, the Company recognize an adjustment to revenue on a cumulative catch-up basis at the date of contract modification.

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. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of contract liabilities.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

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.

(b) Financial instruments

The Company recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

Trade and other receivables without a significant financing component are initially measured at the transaction price. All other financial assets and financial liabilities are initially recognized at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All financial assets are recognized and de-recognized on trade date.

Financial assets are recognized at fair value and subsequently classified and measured at:

- a) Amortized cost.
- b) Fair value through other comprehensive income ("FVOCI"); or
- c) Fair value through profit or loss ("FVTPL").

The Company determines the classification of the Company's financial assets on the basis of both the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets.

A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest of the principal amount outstanding. Financial assets classified at amortized cost are measured using the effective interest method. At September 30, 2025, the Company classified the following as amortized cost:

- Cash and cash equivalents
- Restricted short-term investment
- Trade and other receivables (excluding sales tax recoverable)
- Lease deposit (non-current other asset)

All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. At September 30, 2025, the Company did not have financial assets classified as FVOCI or FVTPL.

Expected credit losses

The Company measure a loss allowance based on the lifetime expected credit losses. The Company has applied the simplified method approach to recognize the lifetime expected credit losses that are estimated based on factors such as the Company's past experience of collecting payments, the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables, financial difficulty of the borrower, and it becoming probable that the borrower will enter bankruptcy or financial re-organization.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

Financial assets are written off when there is no reasonable expectation of recovery.

Financial liabilities

Financial liabilities are recognized at fair value and subsequently classified and measured at amortized cost or fair value through profit or loss ("FVTPL").

The Company determines the classification of the Company's financial liabilities at initial recognition. The Company has classified the following as amortized cost:

- Accounts payable and accrued liabilities
- Accrued royalties liability

The warrant liabilities are classified as FVTPL.

Financial liabilities at amortized cost are measured using the effective interest rate method.

De-recognition of financial liabilities

DEFSEC de-recognizes financial liabilities when its obligations are discharged, cancelled or they expire.

(c) Cash and cash equivalents

Cash and cash equivalents include cash investments in interest-bearing accounts and term deposits which can readily be redeemed for cash without penalty or are issued for terms of three months or less from date of acquisition.

(d) Inventories

DEFSEC's inventories may consist of raw materials, work-in-progress ("WIP") and finished goods. Inventories are measured at the lower of cost and net realizable value, with cost being determined using the weighted average cost method. The cost of WIP and finished goods includes the cost of raw materials, direct labour, and overhead. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. At each reporting period, management estimates the provision for obsolete and slow-moving inventory which may be reversed in subsequent periods, should the value subsequently be recovered.

(e) Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use along with the future cost of dismantling and removing the asset. These assets are depreciated over their estimated useful lives using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

The following table provides a summary of estimated useful lives for property and equipment:

	Rate
Computer equipment	3 years
Computer software	3 years
Office furniture and equipment	5 years
Low-rate initial production equipment ("LRIP")	5 years
R&D equipment	5 years
Sales demo equipment	2 years
Leasehold improvements	Shorter of useful life or remaining term of lease

At the end of each reporting period, the Company reviews the carrying amounts of its property and equipment to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets or groups of assets (the "cash-generating unit, or CGU"). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss. Where an impairment loss subsequently reverses, the carrying amount of the CGU is increased to the revised estimate of its recoverable amount, so long as the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the CGU in prior years.

Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(f) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The lease obligation is measured at the present value of the lease payments that are not paid at the commencement date of the lease, discounted using its incremental borrowing rate at the inception of the lease. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if it is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in estimate of the amount expected to be payable under a residual value guarantee, or if the assessment of whether a purchase, extension, or termination option will be exercised. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying value of the right-of-use asset or, is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

(g) Intangible assets

(i) Research and development (“R&D”) costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company has the intention and sufficient resources to complete the development and to use or sell the asset. The expenditure capitalized in respect of development activities includes the cost of materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditures are recognized in profit or loss when incurred.

(ii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iii) Acquired intangible assets

Acquired intangible assets consist of open customer orders, tradenames, customer relationships, patents, and technology assets acquired either through an asset purchase or a business combination transaction. These intangible assets are recorded at their fair value at the acquisition date.

After initial recognition, intangible assets are measured at cost less any accumulated amortization and impairment losses. Open customer orders are reduced when the Company has delivered under the customer contract, with an offset to accounts receivable (i.e. there is no revenue recognized for acquired open customer orders). Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives. Amortization begins when the related acquired technology is ready for use. The Company anticipates the estimated useful life for the current technology assets to be between five to ten years once ready for use.

Management has estimated the useful lives of tradename and customer relationships of five and ten years, respectively.

(iv) Amortization

Amortization is a systematic allocation of the amortizable amount of an intangible asset of its useful life. The amortizable amount is the cost of the asset less its estimated residual value. The Company recognizes amortization in profit or loss over the estimated useful lives of the intangible assets from the date they are available for use. Amortization is performed on a straight-line basis.

Internally generated intangible assets are not amortized as long as they are not available for use. The Company reviews the estimated useful life of its assets at least at each financial year-end and whenever there is an indication that the expected pattern of economic benefits has changed.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements

Years ended September 30, 2025, 2024 and 2023.

(Expressed in Canadian dollars)

(v) Impairment

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Any impairment losses are recognized in the consolidated statements of net loss and comprehensive loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. The recoverable amount is the higher of the fair value less transaction costs and its value in use. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of net loss and comprehensive loss.

(h) Provisions

A provision is recognized if, as a result of a past event, there is a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. The accretion of the discount is recognized as a finance cost.

(i) Income taxes

Income tax expense comprises of current income tax expense and deferred income tax expense. Current and deferred income taxes are recognized as an expense and included in profit or loss for the period, except to the extent that the tax arises from a transaction which is recognized in other comprehensive income or directly in shareholder's equity.

Current income tax

Current tax expense is the amount of income taxes payable (recoverable) in respect of the taxable income (tax loss) for a period. Current liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax

Deferred tax assets and liabilities are recognized for the temporary differences between transactions and carrying amounts of assets and liabilities that have been included in the consolidated financial statements and the amounts used for taxation purposes. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities and for certain carry-forward items. Deferred income tax assets are recognized only to the extent that it is probable that the deferred income tax assets will be realized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realized.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements

Years ended September 30, 2025, 2024 and 2023.

(Expressed in Canadian dollars)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting period. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority, and the Company intends to settle the Company's current tax assets and liabilities on a net basis.

Investment tax credits

Investment tax credits relating to scientific research and experimental development expenditures are recorded in the fiscal period the qualifying expenditures are incurred based on management's interpretation of applicable legislation in the Income Tax Act of Canada. Credits are recorded provided there is reasonable assurance that the tax credit will be realized. Credits claimed are subject to review by the Canada Revenue Agency.

Credits claimed in connection with R&D activities are accounted for using the cost reduction method. Under this method, assistance and credits relating to current expenditures, which are primarily salaries and related benefits, are included in the determination of profit or loss as a reduction of the R&D expenses.

(j) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions are in the normal course of business and have commercial substance.

(k) Share-based compensation

The Company has a Long-Term Incentive Plan ("LTIP") to grant stock options, restricted share units ("RSUs"), performance stock units ("PSUs"), deferred stock units ("DSUs"), and stock appreciation rights ("SARs") to directors, employees, and consultants. The Company measures share-based compensation at fair value for all share-based awards granted under the LTIP.

Equity-settled service award

The grant date fair value of equity-settled share-based awards is recognized as an expense on a straight-line basis over the requisite service period, with a corresponding increase in equity, over the vesting period of the awards. For stock options, the grant date fair value is determined using the Black-Scholes option model. For share units, the grant date fair value is based on DEFSEC's closing stock price. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. The amount recognized as an expense is adjusted for estimated forfeitures.

Equity-settled performance award

The accounting for equity-settled performance award is the same as above, except compensation expense is subject to periodic adjustment based on the achievement of establishment performance criteria.

(l) Equity

Share capital represents the amount received for shares that have been issued less transaction costs directly attributable to the issuance of common shares net of any related income tax benefits.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

Valuation of equity instruments

The Company has adopted a residual method with respect to the measurement of common shares and warrants issued as units. Warrants attached to units are valued based on the fair value of the warrants using the Black Scholes option pricing model and the share price at the time of financing, and the difference between the proceeds raised and the value assigned to the warrants is the residual fair value of the shares. The proceeds from the issue of the units are allocated between share capital and warrants. In situations when the warrants are categorized as FVTPL the value associated with the warrants is presented as a liability. If and when the warrants are exercised, the applicable amounts of warrants or liability are transferred to share capital. Any consideration paid on the exercise of the warrants is credited to share capital.

Broker warrants

The Company uses the fair value method based on the Black-Scholes pricing model to determine the fair value of the warrants issued to brokers and records a debit to share issuance costs with a corresponding credit to warrants. Warrants within equity are included in the warrants outstanding.

(m) Foreign currency

Foreign currency transactions

The financial statements of DEFSEC and its Canadian wholly owned subsidiaries are measured using CAD as the functional currency. Transactions in currencies other than in CAD are translated at the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated to the functional currency at the rates prevailing at that date. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise. Non-monetary items carried at fair value that are denominated in foreign currencies are translated to the functional currency at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the rates at the date of the transaction and are not subsequently retranslated.

Foreign operations

The financial statements of DEFSEC's U.S. owned subsidiaries are measured using the United States dollar ("USD") as its functional currency. Assets and liabilities have been translated into USD using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which cases the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in shareholders' equity.

(n) Earnings (loss) per share

Basic earnings (loss) per share is computed using net earnings (loss) over the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants, and similar instruments. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants, and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period.

However, the calculation of diluted loss per share excludes the effects of various conversions and exercises of options and warrants that would be anti-dilutive.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

(o) Change in presentation and comparative figures

During the year ended September 30, 2025, the Company changed the presentation of operating expenses in the statement of profit or loss to break out share-based compensation and depreciation and amortization as separate line items. This change in presentation has been applied retrospectively. Comparative figures for the prior period have been restated to reflect the new presentation. Amounts previously included within General and Administrative, Selling and Marketing, and Research and Development, net have been adjusted to exclude share-based compensation and depreciation and amortization, which are now presented separately. The total operating expenses and profit or loss remain unchanged; only the classification of expenses has been modified. Note 19 has also been updated accordingly to reflect this change.

The following is a reconciliation of the change to the fiscal 2024 results:

	Previously Disclosed	Adjustment	Revised Disclosure
General and administrative	\$ 6,269,257	\$ (1,432,442)	\$ 4,836,815
Selling and marketing	1,538,882	(13,654)	1,525,228
Research and development, net	2,477,736	(123,576)	2,354,160
Share-based compensation	—	291,761	291,761
Depreciation and amortization	—	1,277,911	1,277,911
Total operating expenses	<u>\$ 10,285,875</u>	<u>\$ —</u>	<u>\$ 10,285,875</u>

The following is a reconciliation of the change to the fiscal 2023 results:

	Previously Disclosed	Adjustment	Revised Disclosure
General and administrative	\$ 7,244,762	\$ (1,079,465)	\$ 6,165,297
Selling and marketing	3,024,283	(131,604)	2,892,679
Research and development, net	1,644,565	(114,993)	1,529,572
Share-based compensation	—	373,554	373,554
Depreciation and amortization	—	952,508	952,508
Total operating expenses	<u>\$ 11,913,610</u>	<u>\$ —</u>	<u>\$ 11,913,610</u>

(p) Changes to standards and interpretations

IFRS 18 Presentation and Disclosure in Financial Statements

The IASB issued IFRS 18 Presentation and Disclosure in Financial Statements on April 9, 2024, to replace IAS 1 Presentation of Financial Statements and is effective for annual periods beginning on or after January 1, 2027. IFRS 18 introduces a defined structure for the presentation of the statement of income, including required totals and subtotals, as well as aggregating and disaggregating principles to categorize financial information. The standard also requires all Management-defined performance measures to be disclosed in the notes to the financial statements. The Company is currently assessing the impact of this new standard.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

4. Trade and other receivables

The following table presents a breakdown of trade and other receivables:

	September 30, 2025	September 30, 2024
Trade receivables	\$ 1,352,216	\$ 455,049
Unbilled revenue	—	42,248
Sales tax recoverable	141,936	70,578
Total	\$ 1,494,152	\$ 567,875

There was no impairment of trade and other receivables during the year ended September 30, 2025 (2024 - \$nil).

The following table presents changes in unbilled receivables:

	September 30, 2025	September 30, 2024
Balance, beginning of year	\$ 42,248	\$ 5,211
Revenue billed during the year	(42,248)	(5,211)
Revenue in excess of billings, net of amounts transferred to trade receivables	—	42,248
Balance, end of year	\$ —	\$ 42,248
Current	\$ —	\$ 42,248
Non-current	\$ —	\$ —

5. Inventories

The following table presents a breakdown of inventories:

	September 30, 2025	September 30, 2024
Finished goods	\$ 34,463	\$ 55,754
Work-in-progress	29,414	417,890
Raw materials	455,732	59,519
Total	\$ 519,609	\$ 533,163

In Fiscal 2025, a total of \$313,050 (2024 - \$139,813) of inventories was included in profit or loss as an expense as part of cost of sales.

During the year ended September 30, 2025, the Company identified inventory items that were obsolete, no longer in use, or otherwise non-viable for production purposes valued at \$151,316 (2024 - \$113,283, 2023 - \$nil) which were specifically considered impaired and subsequently written off to reflect their reduced value.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

6. Property and equipment

The following is a summary of changes in property and equipment:

Cost	Computer equipment	Computer software	Office furniture and equipment	LRIP equipment ⁽¹⁾	R&D equipment	Leasehold improvements	Sales demo equipment	Total
Balance at September 30, 2023	\$ 143,853	\$ 5,129	\$ 109,578	\$ 97,658	\$ 239,804	\$ 131,792	\$ 109,234	\$ 837,048
Additions	46,254	—	14,000	41,076	—	—	—	101,330
Disposals	(1,799)	—	(8,645)	—	(26,387)	—	—	(36,831)
Balance at September 30, 2024	\$ 188,308	\$ 5,129	\$ 114,933	\$ 138,734	\$ 213,417	\$ 131,792	\$ 109,234	\$ 901,547
Additions	43,012	—	92,597	—	5,011	—	—	140,620
Balance at September 30, 2025	\$ 231,320	\$ 5,129	\$ 207,530	\$ 138,734	\$ 218,428	\$ 131,792	\$ 109,234	\$ 1,042,167

Accumulated depreciation	Computer equipment	Computer software	Office furniture and equipment	LRIP equipment ⁽¹⁾	R&D equipment	Leasehold improvements	Sales demo equipment	Total
Balance at September 30, 2023	\$ 77,462	\$ 2,964	\$ 80,184	\$ 25,751	\$ 135,124	\$ 57,665	\$ 40,602	\$ 419,752
Depreciation	37,788	1,710	15,342	36,760	32,289	21,371	54,398	199,658
Disposals	(1,799)	—	(8,645)	—	(19,131)	—	—	(29,575)
Balance at September 30, 2024	\$ 113,451	\$ 4,674	\$ 86,881	\$ 62,511	\$ 148,282	\$ 79,036	\$ 95,000	\$ 589,835
Depreciation	44,027	455	18,454	40,069	34,590	21,371	14,234	173,200
Balance at September 30, 2025	\$ 157,478	\$ 5,129	\$ 105,335	\$ 102,580	\$ 182,872	\$ 100,407	\$ 109,234	\$ 763,035
Carrying value at September 30, 2024	\$ 74,857	\$ 455	\$ 28,052	\$ 76,223	\$ 65,135	\$ 52,756	\$ 14,234	\$ 311,712
Carrying value at September 30, 2025	\$ 73,842	\$ —	\$ 102,195	\$ 36,154	\$ 35,556	\$ 31,385	\$ —	\$ 279,132

(1) Low-rate initial production equipment ("LRIP") includes moulds for developing PAPA SHOT™ device samples.

7. Right-of-use assets

The following table presents right-of-use assets:

	Offices
Balance at September 30, 2023	\$ 361,036
Additions	—
Depreciation	(130,912)
Balance at September 30, 2024	\$ 230,124
Additions	1,166,652
Disposals	(41,699)
Impairment	(88,596)
Depreciation	(101,300)
Balance at September 30, 2025	\$ 1,165,181

In 2025, the Company made a total deposit of \$44,578 associated with the new lease entered into during the year and to be released at the end of the lease term. This was initially recorded at fair value, discounted using a 10.7% interest rate. At September 30, 2025, \$46,132 (2024 - \$28,806, 2023 - \$26,076) was the carrying value of all deposits and reported as non-current deposit in the consolidated statements of financial position.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

8. Intangible assets

The following table shows a breakdown of intangible assets:

	PARA SHOT™ System	PARA SHOT™ Patent	ARWENT™ Tradename	Customer Relationships	Purchase Orders	ARWENT™ 40mm Patent	Total
Balance at September 30, 2023	\$ 3,998,395	\$ 40,295	\$ 28,232	\$ 41,041	\$ 4,387	\$ —	\$ 4,112,350
Additions	9,823	—	—	—	—	—	9,823
Amortization	(933,541)	—	(8,800)	(5,000)	—	—	(947,341)
Balance at September 30, 2024	\$ 3,074,677	\$ 40,295	\$ 19,432	\$ 36,041	\$ 4,387	\$ —	\$ 3,174,832
Additions	—	—	—	—	—	26,675	26,675
Amortization	(788,400)	—	(8,800)	(5,000)	—	(4,890)	(807,090)
Recognition of open orders	—	—	—	—	(4,387)	—	(4,387)
Balance at September 30, 2025	\$ 2,286,277	\$ 40,295	\$ 10,632	\$ 31,041	\$ —	\$ 21,785	\$ 2,390,030

The balance at September 30, 2025, for PARA SHOT™ represents the acquired technology asset (i.e. intellectual properties), coupled with additional capitalized development costs. As it is available for its intended use, amortization charge was recorded for the year ended September 30, 2025, of \$788,400 (2024 - \$933,541, 2023 - \$562,639).

PARA SHOT™ was assessed for indicators of impairment at September 30, 2025, as it was available for use. The Company determined that there were no indicators of impairment and therefore did not test for impairment.

On July 1, 2025, the Company reassessed the estimated useful life of its PARA SHOT™ assets, in accordance with IAS 38 – *Intangible Assets* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors*. As a result of this review, the useful life was extended from January 2028 to April 2032. The revision was made based on updated information regarding the asset's expected economic benefits and technological relevance. The factors driving this change were the continued prospect interest for the product and its functionalities beyond the original estimate and lower than expected rate of technological disruption in the industry. This change in estimate has been applied prospectively from July 1, 2025. The effect of the change on amortization expense is a reduction in annual amortization expense from \$934,000 to \$350,000.

9. Accounts payable and accrued liabilities

The following table presents a breakdown of accounts payable and accrued liabilities:

	September 30, 2025	September 30, 2024
Trade payable	\$ 409,696	\$ 881,835
Sales tax payable	47,427	—
Accrued liabilities	744,320	610,558
Salary, bonus and vacation payable	1,109,219	168,244
Total	\$ 2,310,662	\$ 1,660,637

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements

Years ended September 30, 2025, 2024 and 2023.

(Expressed in Canadian dollars)

10. Accrued royalties liability

On April 29, 2021, the Company acquired the Low Energy Cartridge technology, a proprietary non-lethal cartridge-based firing system (subsequently branded as PARA SHOT™ system). This technology acquisition includes all intellectual property rights for the PARA SHOT™ system. As part of that arrangement the Company agreed to pay a 7% royalty on annual sales of the PARA SHOT™ system to the seller, net of taxes and duties, up to a maximum of \$10 million, subject to minimum annual royalty payments starting in 2022.

The minimum annual royalty payments are as follows:

Payment Date	Amount
April 29, 2026	\$ 200,000
April 29, 2027	250,000
April 29, 2028	250,000
April 29, 2029	300,000
April 29, 2030	300,000
April 29, 2031	350,000
April 29, 2032	350,000
Total	<u>\$ 2,000,000</u>

Historically the payment date has been treated as the anniversary of the closing date of the Purchase Agreement (“Agreement”) being the date when the consideration shares were issued.

The royalty payment obligation of the Agreement will expire in 20 years unless terminated earlier under the terms set out in the Agreement. At its sole discretion, the Company may terminate this Agreement for convenience, including if market conditions for sales of the PARA SHOT™ system become unfavorable subject to 60 day’s prior written notice. Upon termination, the Company will be fully released and discharged by the seller for any future royalties. In return, the Company will return all intellectual property rights relating to the PARA SHOT™ system.

The fair value of the minimum royalty payments was determined based on the income approach, specifically discounted cash flows, using a discount rate of 13.7% per annum at the time the agreement was entered into. Using the effective interest rate method the Company is accreting this liability over time up to the principal amount owed.

During the year ended September 30, 2025, the Company recorded \$168,874 of accretion cost relating to the discounted minimum royalty payments, which is included in net finance costs in the consolidated statements of net loss and comprehensive loss (2024 - \$180,965, 2023 - \$170,373). As at September 30, 2025, \$1,287,009 of accrued royalties liability was outstanding (2024 - \$1,318,135, 2023 - \$1,287,170).

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

11. Related party transactions

Key management personnel compensation

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of DEFSEC directly or indirectly, including any of Company's directors (executive and non-executive).

Key management personnel compensation comprised the following:

	Year ended September 30, 2025	Year ended September 30, 2024	Year ended September 30, 2023
Wages and benefits	\$ 1,984,172	\$ 907,288	\$ 505,026
Consulting fees	540,000	397,500	628,264
Directors compensation	250,000	228,387	130,000
Share-based compensation	74,394	126,314	167,027
Total	\$ 2,848,566	\$ 1,659,489	\$ 1,430,317

The consulting fees relate to compensation to our Chairman, via his private corporation, DEFSEC Corp.

Following September 30, 2024, the Board of Directors approved special bonuses for the Named Executive Officers totalling \$616,750, in recognition of three major achievements completed in November 2024. This bonus was paid in fiscal 2025. As at September 30, 2025, the Company has \$722,500 of accrued bonuses under the board of directors approved annual incentive plan. This amount was subsequently approved by the board of directors and paid out in December 2025. Both the 2024 special bonus and 2025 annual bonus are included in the table above within the wages and benefits and consulting fees.

At September 30, 2025, there was \$791,946 (2024 - \$471,465) outstanding in accounts payable and accrued liabilities due to Company's officers and directors for unpaid wages, accrued bonuses, accrued vacation, and expense reimbursements.

On November 11, 2024, The Company issued 119,047 Common Shares at a deemed price per Common Share of \$0.84 per share, representing a 20% discount on the closing price of the Shares on the TSXV for settlement for reimbursement of business expenses incurred while representing the Company in an aggregate amount of \$100,000 owed to a company controlled by Mr. David Luxton, Chairman of the Company.

12. Borrowings

RBC Credit Facility

The Company maintains corporate credit cards for its key employees with Royal Bank of Canada ("RBC"). To provide security, the Company entered into a cash collateral agreement for \$47,500 (2024 - \$30,000) and a general security agreement providing a first lien on all assets. The \$47,500 (2024 - \$30,000) was invested in a short-term guaranteed investment certificate.

13. Lease obligation

The Company is current entered into three lease contracts which expire on April 30, 2026, October 31, 2026, and May 31, 2031, respectively. The Company has included renewal options in the lease term where it is reasonably certain to exercise the renewal option.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements

Years ended September 30, 2025, 2024 and 2023.

(Expressed in Canadian dollars)

On June 2, 2025, the Company entered into a new office lease with an expiry date of May 31, 2031, and an option to renew for an additional five-year term. The agreement included a rent-free period from June 2, 2025, to May 31, 2026, as a lease inducement. In determining the value of the lease obligation the Company has included the renewal option for the lease as the Company is expecting to renew at expiry. In determining the value of the lease obligation the Company has used an estimated incremental borrowing rate of 10.7%. In addition to rent included in the lease obligation, the Company is also required to pay additional rent of \$269,681 per year beginning in June 2026, which will be recorded on the consolidated statements of net loss and comprehensive loss as incurred.

In fiscal 2025, the Company transferred an office to another lessor and recorded a disposal of the lease obligation as well as the right-of-use asset.

The following table presents the movement in Company's lease obligation for the respective periods:

	Offices
Balance at September 30, 2023	\$ 429,523
Additions	—
Lease payments (including interest)	(197,651)
Interest expense	70,351
Balance at September 30, 2024	<u>\$ 302,223</u>
Additions	1,149,676
Lease payments (including interest)	(172,153)
Interest expense	78,909
Disposal	(55,205)
Balance at September 30, 2025	<u><u>\$ 1,303,450</u></u>
Current portion	188,907
Non-current portion	1,114,543
Balance at September 30, 2025	<u><u>\$ 1,303,450</u></u>

The following table presents the contractual undiscounted cash flows for the lease obligations:

	September 30, 2025	September 30, 2024
Less than one year	\$ 169,053	\$ 206,828
One to five years	1,031,576	154,445
Five years and beyond	1,049,591	—
Total	<u><u>\$ 2,250,220</u></u>	<u><u>\$ 361,273</u></u>

14. Contract liabilities

The following table presents the changes in contract liabilities:

	September 30, 2025	September 30, 2024
Balance, beginning of fiscal year	\$ 120,571	\$ 120,970
Amounts invoiced and revenue deferred	6,471	108,573
Recognition of deferred revenue included in the balance at the beginning of the year	(119,371)	(108,972)
Balance, end of fiscal year	<u><u>\$ 7,671</u></u>	<u><u>\$ 120,571</u></u>

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements

Years ended September 30, 2025, 2024 and 2023.

(Expressed in Canadian dollars)

15. Warrant liabilities

The following table shows a breakdown and balance of warrant liabilities at September 30, 2025:

	U.S IPO and Canadian Offerings		Private Placement		Debt Settlement	Direct Offering	Direct Offering	
	2022 Warrants	Over-allotment Warrants	2023 Warrants	Pre-Funded Warrants	Warrants	Warrants	Public Offering Nov'24	Total
Balance, beginning of year	\$ 65,765	\$ 7,644	\$ 60,373	\$ 31,338	\$ 1,145	\$ 681,030	\$ —	\$ 847,295
Initial recognition	—	—	—	—	—	—	4,770,722	4,770,722
Exercised	—	—	—	—	—	—	(779,578)	(779,578)
Gain (Loss) on revaluation of financial instruments	112,054	(7,644)	(64,314)	(29,959)	1,990	(699,473)	(714,912)	(1,402,258)
Exchange (gain) loss on revaluation	2,289	—	3,941	90	—	44,696	25,693	76,709
Extinguish Warrant Liability/Transfer to equity	—	—	—	—	—	—	(3,301,925)	(3,301,925)
Balance, end of year	\$ 180,108	\$ —	\$ —	\$ 1,469	\$ 3,135	\$ 26,253	\$ —	\$ 210,965
Number of outstanding securities at September 30, 2025 ⁽¹⁾	3,226,392	—	1,542,194	151,734	56,141	4,715,000	—	9,691,461

⁽¹⁾ Number of outstanding securities have not been adjusted for the share consolidations discussed in Note 1 (b) and (c)

The following table shows a breakdown and balance of warrant liabilities at September 30, 2024:

	U.S IPO and Canadian Offerings			Private Placement		Debt Settlement	Public Offering	Direct Offering	
	2022 Warrants	Over-allotment Pre-Funded Warrants	Over-allotment Warrants	2023 Warrants	Pre-Funded Warrants	Warrants	Pre-Funded Warrants	Warrants	Total
Balance, beginning of year	\$ 1,042,538	\$ 414,334	\$ 121,173	\$ 798,573	\$ 1,940,914	\$ 18,141	\$ —	\$ —	\$ 4,335,673
Initial recognition	—	—	—	—	—	—	708,054	647,039	1,355,093
Exercised	—	(119,257)	—	—	(829,720)	—	(820,649)	—	(1,769,626)
Gain (Loss) on revaluation of financial instruments	(973,396)	(295,186)	(113,022)	(728,282)	(1,069,466)	(16,996)	104,227	44,553	(3,047,568)
Exchange (gain) loss on revaluation	(3,377)	109	(507)	(9,918)	(10,390)	—	8,368	(10,562)	(26,277)
Balance, end of year	\$ 65,765	\$ —	\$ 7,644	\$ 60,373	\$ 31,338	\$ 1,145	\$ —	\$ 681,030	\$ 847,295
Number of outstanding securities at September 30, 2024 ⁽¹⁾	3,226,392	—	375,000	1,542,194	151,734	56,141	—	4,715,000	10,066,461

⁽¹⁾ Number of outstanding securities have not been adjusted for the share consolidations discussed in Note 1(b) and (c)

U.S. IPO and Canadian Offering

On December 9, 2022, the Company closed an underwritten U.S. public offering (the “U.S. IPO”) and an underwritten Canadian offering (the “Canadian Offering”) for aggregate gross proceeds of CAD\$19.4 million (US\$14.1 million) (see Note 16(a)). As part of the U.S. IPO and Canadian Offering, the Company issued 3,226,392 warrants (the “2022 Warrants”) with an exercise price of US\$1,050.00 per share. The warrants have a conversion ratio of 210 warrants for one common share. Additionally, the U.S. underwriter exercised its over-allotment option to purchase:

- 199,000 Pre-Funded Warrants with an exercise price of US\$2.10 per share for \$3.81 per pre-funded warrant (net of underwriter discount); and
- 375,000 warrants with exercise price of US\$1,050.00 per share for \$1.42 per warrant.

Refer to Note 16(a) for further information on the U.S. IPO and Canadian Offering.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements

Years ended September 30, 2025, 2024 and 2023.

(Expressed in Canadian dollars)

In accordance with IFRS, the above securities are classified as financial liabilities (referred herein as “warrant liabilities”) because the exercise price is denominated in U.S. dollars, which is different to Company’s functional currency (Canadian dollars). Accordingly, the ultimate proceeds in Canadian dollars from the potential exercise of the above securities are not known at inception. These financial liabilities are classified and measured at FVTPL (see Note 3(b)). Gains on revaluation of the warrant liabilities are presented in Other income (expenses) on the consolidated statements of net loss and comprehensive loss.

Warrant liabilities

While the warrants issued in the U.S. IPO were listed on Nasdaq and closed at US\$9.00 per warrant on December 9, 2022, management concluded that this closing price was not reflective of an active market due to the short trading window and therefore not representative of fair value. Accordingly, at inception, the 2022 Warrants were measured at fair value using the Black Scholes option pricing model (Level 2). The Company used the following assumptions:

	2022 Warrants ⁽¹⁾	Over- allotment Pre- Funded ⁽²⁾ Warrants	Over- allotment Warrants ⁽³⁾
Number of dilutive securities	3,282,533	199,000	375,000
Exercise price (in USD)	\$ 5.00	\$ 0.01	—
Share price (in USD)	\$ 867.30	\$ 646.80	—
Expected life	2.5	—	—
Dividend	\$ —	—	—
Volatility	75 %	—	—
Risk free rate	4.20 %	—	—
Exchange (USD/CAD)	1.363	—	—
Fair value per warrant (CAD)	\$ 1.43	\$ 4.18	\$ 1.43

(1) Includes debt settlement warrants.

(2) Fair value is measured at the underlying common share closing price on Nasdaq on December 9, 2022, less US\$0.01 exercise price.

(3) Same fair value as calculated for Warrants.

The share price (in USD) for the over-allotment pre-funded warrants was based on the estimated fair value of the common shares issued on December 9, 2022, by deducting the fair value of 210 warrants of US\$220.05 from the US\$867.30 Unit price and the exercise price of US\$2.10 (see Note 16(a)).

Based on the above fair value, the issuance of the over-allotment pre-funded warrants and warrants to the underwriter resulted in a non-cash charge of \$251,877, which is included in the change in fair value of warrant liabilities in the consolidated statements of net loss and comprehensive loss.

During fiscal year 2024, the 199,000 pre-funded warrants were fully exercised for 952 common shares at a weighted average price of US\$2.10 per share (2023 – nil).

During fiscal year 2025, the 375,000 over allotment warrants expired.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

At September 30, 2025, the fair value of these warrants was determined using the following assumptions:

	2022 Warrants ⁽¹⁾
Number of securities	3,282,533
Exercise price (in USD)	\$ 0.0401
Exchange (USD/CAD)	1.3921
Fair value per warrant (CAD)	\$ 0.06

(1) Fair value is based on the Nasdaq closing pricing on September 30, 2025, for the warrants.

At September 30, 2024, the fair value of these warrants was determined using the following assumptions:

	2022 Warrants ⁽¹⁾	Over- allotment Warrants ⁽¹⁾
Number of securities	3,282,533	375,000
Exercise price (in USD)	\$ 0.015	0.015
Exchange (USD/CAD)	1.3499	1.3499
Fair value per warrant (CAD)	\$ 0.02	\$ 0.02

(1) Fair value is based on the Nasdaq closing pricing on September 30, 2024, for the warrants.

December 2022 Debt Settlement

On December 13, 2022, the Company entered into a share for debt arrangements with existing lenders (see Note 16(a)), which resulted in issuing 267 Units, same terms as the Units issued in the Canadian Offering except that the underlying securities are subject to a four-month hold period. Accordingly, this resulted in issuing 267 common shares and 56,141 warrant liabilities with an exercise price of US\$1,050.00 per share and maturing on December 13, 2027. The warrants have a conversion ratio of 210 warrants for one common share. The Company initially recorded the fair value of the warrant liabilities using the Black Scholes option pricing model with an underlying stock price equivalent to the unit price of US\$867.30.

At September 30, 2025, the Company remeasured the fair value of these warrant liabilities using the Nasdaq closing price on September 30, 2025, of US\$0.0401 (2024 – US\$0.0151). The remeasurement resulted in a change in fair value of warrant liabilities of \$1,990 for the year ended September 30, 2025 (2024 - \$16,996, 2023 - \$62,476), which was reported in the consolidated statements of net loss and comprehensive loss.

Private Placement (July 2023)

On July 21, 2023, the Company closed an underwritten U.S. private placement for gross proceeds of CAD\$7.4 million (US\$5.59 million) (see Note 16(a)). As part of the private placement, 1,542,194 warrants were issued (the “2023 Warrants”) with an exercise price of US\$558.60 per share. Additionally, 930,548 pre-funded Warrants with an exercise price of US\$0.21 per share for US\$2.26 per pre-funded warrant were issued.

Refer to Note 16(a) for further information on the private placement.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements

Years ended September 30, 2025, 2024 and 2023.

(Expressed in Canadian dollars)

Under IFRS, the above securities are classified as financial liabilities (referred herein as “warrant liabilities”) because the exercise price is denominated in U.S. dollars, which is different from Company’s functional currency (Canadian dollars). Accordingly, the ultimate proceeds in Canadian dollars from the potential exercise of the above securities are not known at inception. These financial liabilities are classified and measured at FVTPL (see Note 3(b)). Gains on revaluation of the warrant liabilities are presented in other income (expenses) on the consolidated statements of net loss and comprehensive loss.

Warrant liabilities

The 2023 warrants issued in the private placement were not listed on Nasdaq and does not represent an active market Level 1 input. Accordingly, at inception, the 2023 Warrants were measured at fair value using the Black Scholes option pricing model (Level 2), using the following assumptions:

	2023 Warrants	Pre-Funded Warrants ⁽¹⁾
Number of dilutive securities	1,542,194	930,548
Exercise price (in USD)	\$ 2.66	\$ 0.001
Share price (in USD)	\$ 436.80	\$ 436.80
Expected life	2.5	
Dividend	\$ —	
Volatility	67 %	
Risk free rate	4.44 %	
Exchange (USD/CAD)	1.321	1.321
Fair value per warrant (CAD)	\$ 0.99	\$ 1.98

⁽¹⁾ Fair value is measured at the underlying common share closing price on Nasdaq on July 21, 2023, less US\$0.21 exercise price per share. The share price is based on the historical share price adjusted for the 2024 and 2025 Reverse Split.

The share price (in USD) of the pre-funded warrants was based on the estimated fair value of the common shares issued on July 21, 2023, by deducting the fair value of the warrants of US\$157.50 from the US\$474.60 Unit price and the exercise price of US\$0.21 (see Note 16(a)). The warrants have a conversion ratio of 210 warrants for one common share.

During fiscal year 2025, none of these July 2023 warrants were exercised (2024 – 778,814 at US\$0.21 weighted average exercise price).

At September 30, 2025, the fair value of these warrants was determined using the following assumptions:

	2023 Warrants ⁽¹⁾	Pre-Funded Warrants ⁽²⁾
Number of dilutive securities	1,542,194	151,734
Exercise price (in USD)	\$ 2.60	\$ 0.001
Nasdaq closing price (in USD)	\$ —	\$ 0.017
Black Scholes fair value (in USD)	\$ —	—
Volatility	101 %	—
Risk free rate	2.44 %	—
Exchange (USD/CAD)	1.3921	1.3921
Fair value per warrant (CAD)	\$ —	\$ 0.01

(1) Fair value is based on the Black Scholes model on September 30, 2025, for the warrants

(2) Fair value is measured at the Nasdaq closing price on September 30, 2024, for the underlying common stock less US\$0.21 exercise price per share. The share price is based on the historical share price adjusted for the 2024 and 2025 Reverse Split.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements

Years ended September 30, 2025, 2024 and 2023.

(Expressed in Canadian dollars)

US Public Offering (April 2024)

On April 9, 2024, the Company closed an underwritten U.S. public offering for gross proceeds of CAD\$1.4 million (US\$1 million) (see Note 16(a)). In this offering, 803,500 pre-funded Warrants with an exercise price of US\$0.21 per share for US\$0.649 per pre-funded warrant were issued. The warrants have a conversion ratio of 210 warrants for one common share.

Refer to Note 16(a) for further information on the offering.

Under IFRS, the above securities are classified as financial liabilities (referred herein as “warrant liabilities”) because the exercise price is denominated in U.S. dollars, which is different to Company’s functional currency (Canadian dollars). Accordingly, the ultimate proceeds in Canadian dollars from the potential exercise of the above securities are not known at inception. These financial liabilities are classified and measured at FVTPL. Gains on revaluation of the warrant liabilities are presented in other income (expenses) on the consolidated statements of net loss and comprehensive loss.

Warrant liabilities

In fiscal 2024, all 803,500 warrants were subsequently exercised at a weighted average exercise price of US\$0.21 per common share. The warrants have a conversion ratio of 210 warrants for one common share.

US Registered Direct Offering (August 2024)

On August 13, 2024, the Company closed a direct offering for the purchase and sale of 22,452 common shares at a purchase price of US\$42.00 per common share for gross proceeds of CAD\$1.3 million (US\$0.9 million) (see Note 16(a)). In a concurrent private placement, the Company issued unregistered warrants to purchase up to 22,452 common shares at an exercise price of US\$52.50. This was a unit offering consisting of a share and a warrant. The fair value of the warrants attached to the units were valued based on the Black-Scholes model and the difference between the proceeds raised and the value assigned to the warrants is the residual fair value of the shares.

Refer to Note 16(a) for further information on the offering.

Under IFRS, the above securities are classified as financial liabilities (referred herein as “warrant liabilities”) because the exercise price is denominated in U.S. dollars, which is different to Company’s functional currency (Canadian dollars). Accordingly, the ultimate proceeds in Canadian dollars from the potential exercise of the above securities are not known at inception. These financial liabilities are classified and measured at FVTPL. Gains on revaluation of the warrant liabilities are presented in other income (expenses) on the consolidated statements of net loss and comprehensive loss.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

Warrant liabilities

At September 30, 2025, the fair value of these warrants was determined using the following assumptions:

	2024 Warrants⁽¹⁾
Number of securities	4,715,000
Exercise price (in USD)	\$ 0.25
Nasdaq closing price (in USD)	\$ 0.017
Black Scholes fair value (in USD)	\$ —
Volatility	100 %
Risk free rate	2.65 %
Exchange (USD/CAD)	1.329
Fair value per warrant (CAD)	\$ 0.01

(1) Fair value is based on the Black Scholes model on September 30, 2025, for the warrants

U.S. Public Offering (November 2024)

On November 1, 2024, the Company announced the closing of a public offering of 3,810 common shares and 3,809,000 pre-funded warrants (“PFW”) at a public offering price of \$26.25 (US\$18.90) per common share and \$1.25 (US\$0.90) per pre-funded warrant. The gross proceeds from the offering were \$4.9 million (US\$3.5 million). The fair value of the pre-funded warrants on initial recognition was \$1.249, which is the purchase price less the per warrant exercise price of \$0.001.

Refer to Note 16(a) for further information on the offering and to Note 1(b) and (c) for further information on the share consolidations.

Under IFRS, the pre-funded warrants are classified as financial liabilities (referred herein as “warrant liabilities”) because the exercise price is denominated in U.S. dollars, which is different from Company’s functional currency (Canadian dollars). Accordingly, the ultimate proceeds in Canadian dollars from the potential exercise of the above securities are not known at inception. These financial liabilities are classified and measured at FVTPL. Gains on revaluation of the warrant liabilities are presented in other income (expenses) on the Consolidated Statements of Net Loss and Comprehensive Loss.

Warrant liabilities

639,000 pre-funded warrants were subsequently exercised at a weighted average exercise price of US\$0.021 per common share. On November 12, 2024, the Company converted the remaining 3,170,000 pre-funded warrants to CAD denomination which led to the transfer of pre-funded warrants to equity and extinguishing the related warrant liability. On November 12, 2024, the Company recognized a gain of \$689,219 in the change in fair value of warrant liabilities, before reclassifying the pre-funded warrants to equity, which was reported in the Consolidated Statements of Net Loss and Comprehensive Loss.

16. Share capital and Contributed Surplus

As disclosed in Note 1(b) and Note 1(c), the Reverse Splits have been applied retrospectively herein.

(a) Share Capital

Authorized

DEFSEC is authorized to issue an unlimited number of common shares.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

Issued Common Shares:

	September 30, 2025		September 30, 2024		September 30, 2023	
	Number	Amount	Number	Amount	Number	Amount
Balance, beginning of year	75,200	\$ 37,822,725	26,744	\$ 33,379,110	3,682	\$ 19,496,640
Issued for U.S. IPO and Canadian Offering	—	—	—	—	15,363	13,675,120
Issued in private placement	50,248	371,154	—	—	7,343	3,050,316
Issued for debt settlements	5,669	100,000	222	97,615	267	233,485
Issued for U.S. public offerings	676,894	3,271,209	39,761	3,608,154	—	—
Issued for conversion of share units	—	—	—	—	67	529,504
Issued for exercise of warrants	588,310	6,234,156	8,473	1,771,239	17	60,000
Issued for exercise of stock options	—	—	—	—	5	5,836
Less: share offering costs for the year	—	(795,253)	—	(1,033,393)	—	(3,671,791)
Balance, end of year	1,396,321	\$ 47,003,991	75,200	\$ 37,822,725	26,744	\$ 33,379,110

2025 Activities
Public Offering (July 2025)

On July 25, 2025, the Company issued 673,084 common shares and 86,795 pre-funded warrants, with an exercise price of \$0.001, of the Company as part of a public offering, together with common share purchase warrants to purchase up to 759,879 common shares at a combined public offering price of \$8.955 per share or pre-funded warrant and accompanying warrant for gross proceeds of \$6.8 million. The warrants have an exercise price of \$10.52 per share, are exercisable upon issuance and expire five years following the date of issuance.

The fair value of the July 2025 common share purchase warrants was calculated using the Black Scholes model, with the following assumptions:

	Initial Recognition
Number of warrants	759,879
Stock price	\$ 6.16
Exercise price	\$ 10.52
Volatility	101 %
Dividend yield	Nil
Risk free rate	3.03 %
Expected life (in years)	5
Fair value per warrant	\$ 4.24

Subsequent to the issuance, 55,530 pre-funded warrants were exercised at an exercise price of \$0.001.

Brokers' Compensation and Share Issuance Costs

In connection with the July 2025 Offering, Wainwright was granted a tail obligation resulting in earning 7.5% on any equity financing raised from investors introduced to the Company as part of the offering. The July 2025 offering fell within the scope of the tail obligation and resulted in a payment of \$489,868, representing 7.5% of the gross proceeds, within the scope of the tail obligation, to Wainwright upon closing of the transaction.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

As compensation for services rendered, Wainwright or its designees was granted 56,991 warrants ("July 2025 Broker Warrants") equal to 125% of the offering price per share. The July 2025 Broker Warrants are immediately exercisable and entitle the holder to acquire common shares on a one for one basis. The July 2025 Broker Warrants have an exercise price of \$11.19 per common share for a period of 60 months following the closing of the July 2025 offering.

The fair value of the July 2025 Broker Warrants at the closing of the July 2025 offering was \$238,735 calculated using the Black Scholes model.

The share issuance costs related to the July 2025 recognized in equity were \$1,402,227, inclusive of the July 2025 Broker Warrants.

The fair value of the July 2025 Placement Agent Brokers' warrants was calculated using the Black Scholes model, with the following assumptions:

	<u>Initial Recognition</u>
Number of warrants	56,991
Stock price	\$ 6.16
Exercise price	\$ 11.19
Volatility	101 %
Dividend yield	Nil
Risk free rate	3.03 %
Expected life (in years)	5
Fair value per warrant (CAD)	\$ 4.19

Private Placement (February 2025)

On February 21, 2025, and February 25, 2025, the Company closed the first and second tranche, respectively, of a brokered private placement offering for aggregate gross proceeds of approximately \$3.7 million (the "February 2025 PP").

As part of the February 2025 PP, the Company issued 50,248 common shares and 2,884,179 pre-funded warrants to acquire one common share of the Company. The common shares and pre-funded warrants had a no-par value per share at a price of \$19.488 per common share and \$0.928 per pre-funded warrant, inclusive of the exercise price of \$0.021 per common share. Each common share and pre-funded warrant were bundled with one common share purchase warrant ("February 2025 Common Warrant") of the Company. Each February 2025 Common Warrant is immediately exercisable and entitles the holder to acquire one common share for every 21 February 2025 Common Warrant exercised at an exercise price of \$24.36 per common share for a period of 60 months following the closing of the February 2025 PP. Although the common shares and pre-funded warrants are each bundled with a February 2025 Common Warrant, each security is issued separately. Since the instruments were bundled, the Company bifurcated the fair value based on the residual method to determine the fair value of each security. The Black Scholes model was used to determine the fair value of the underlying February 2025 Common Warrant and the remainder of the purchase price was allocated to the common share or pre-funded warrant, resulting in a fair value of the first and second tranche of February 2025 Common Warrants was \$0.58 and \$0.55, respectively. The common shares had a fair value of \$7.308 per share and the pre-funded warrants had a fair value of \$0.348 per warrant.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

The fair value of the February 21, 2025, warrants was calculated using the Black Scholes model, with the following assumptions:

<i>February 21 Tranche</i>	Initial Recognition
Number of warrants	3,787,879
Stock price	\$ 0.80
Exercise price	\$ 1.16
Volatility	104 %
Dividend yield	Nil
Risk free rate	2.76 %
Expected life (in years)	5
Fair value per warrant	\$ 0.58

The fair value of the February 25, 2025, warrants was calculated using the Black Scholes model, with the following assumptions:

<i>February 25 Tranche</i>	Initial Recognition
Number of warrants	151,515
Stock price	\$ 0.77
Exercise price	\$ 1.16
Volatility	104 %
Dividend yield	Nil
Risk free rate	2.65 %
Expected life (in years)	5
Fair value per warrant	\$ 0.55

The 2,884,179 pre-funded warrants were subsequently exercised into 137,342 common shares at an exercise price of \$0.001 per warrant, for total proceeds of \$2,884 in fiscal 2025.

Brokers' Compensation and Share Issuance Costs

In connection with the February 2025 Offering, Wainwright was also granted a tail obligation resulting in earning 7.5% on any equity financing raised from investors introduced to the Company as part of the offering. The February 2025 PP fell mostly within the scope of the tail obligation and resulted in a payment of \$244,128 representing 7.5% of the gross proceeds, within the scope of the tail obligation, to Wainwright upon closing of the transaction.

ThinkEquity acted as sole placement agent for the Offering. As compensation for services rendered, the Company (i) paid to ThinkEquity, at the closing of the February 2025 PP, a cash fee equal to \$274,182, representing 7.5% of the aggregate gross proceeds of the February 2025 PP; and (ii) issued to ThinkEquity or its designees 196,970 warrants ("February 2025 Placement Agent Warrants") equal to 105% of the common shares and 5% of the pre-funded warrants sold in the February 2025 PP. The February 2025 Placement Agent Warrants are immediately exercisable and entitle the holder to acquire one common share for every 21 warrants. The February 2025 Placement Agent Warrants exercised at an exercise price of \$24.36 per common share for a period of 60 months following the closing of the February 2025 PP.

The fair value of the February 2025 Placement Agent Warrants at the closing of the February 2025 PP was \$114,046, calculated using the Black Scholes model.

The share issuance costs related to the February 2025 PP recognized in equity were \$927,219, inclusive of the February 2025 Placement Agent Warrants.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

The fair value of the February 25, 2025, February 2025 Placement Agent Warrants Brokers' warrants was calculated using the Black Scholes model, with the following assumptions:

<i>February 25 Tranche</i>	Initial Recognition
Number of warrants	189,394
Stock price	\$ 0.80
Exercise price	\$ 1.16
Volatility	104 %
Dividend yield	Nil
Risk free rate	2.76 %
Expected life (in years)	5
Fair value per warrant (CAD)	\$ 0.58

The fair value of the February 25, 2025, Brokers' warrants was calculated using the Black Scholes model, with the following assumptions:

<i>February 25 Tranche</i>	Initial Recognition
Number of warrants	7,576
Stock price	\$ 0.77
Exercise price	\$ 1.16
Volatility	104 %
Dividend yield	Nil
Risk free rate	2.65 %
Expected life (in years)	5
Fair value per warrant (CAD)	\$ 0.55

U.S. Public Offering (November 2024)

On November 1, 2024, the Company announced the closing of a public offering of 3,810 common shares and 3,809,000 pre-funded warrants at a public offering price of \$26.25 (US\$18.90) per common share and \$1.25 (US\$0.90) per pre-funded warrant (the "November 2024 Offering"). The gross proceeds from the offering were approximately \$4.9 million (US\$3.5 million), before deducting placement agent fees of \$1.974 (US\$1.4175) per common share and \$0.094 (US\$0.0675) per pre-funded warrant (being an aggregate of \$365,726 (US\$262,508) or 7.5% of the public offering price of the securities). In addition, the Company issued to the placement agent as compensation for its services 194,450 common share purchase warrants with an exercise price of \$32.907 (US\$23.625) per common share.

On November 12, 2024, we amended the pre-funded warrants whereas the exercise price of the warrants, along with all the other settlement amounts, were amended to be denominated in CAD currency, which is consistent with the Company's functional and presentation currency. As a result, the Company has reclassified the remaining unexercised pre-funded warrants as equity instruments under IAS 32. This resulted in a transfer of \$3,301,925 from warrant liabilities to equity warrants. The amendments effectively remove the cashless exercise option and ensure settlement in CAD, thereby meeting the criteria for equity classification. We also applied IFRIC 19 to appropriately derecognize the liabilities and recognize the equity effective November 12, 2024.

Accounting Treatment

Refer to Note 15 for the accounting of the warrants issued in the November 2024 Offering accounted for as warrant liabilities up to November 11, 2024.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements

Years ended September 30, 2025, 2024 and 2023.

(Expressed in Canadian dollars)

The remaining 3,170,000 pre-funded warrants were subsequently exercised at a weighted average exercise price of \$0.021 per common share, for proceeds of \$3,170, during fiscal 2025.

Brokers' Compensation and Share Issuance Costs

In connection with the November 2024 Offering, Wainwright was also granted a tail obligation resulting in earning 7.5% on any equity financing raised from investors introduced to the Company as part of the offering. The November 1, 2024, financing fell entirely within the scope of the tail obligation and resulted in a payment of \$362,618 (US\$260,661), representing 7.5% of the \$4.9 million (US\$3.5 million) gross proceeds to Wainwright upon closing of the transaction.

ThinkEquity acted as the sole placement agent for the November 2024 Offering. As compensation for services rendered, the placement agent fees were \$365,726 (US\$262,508) or 7.5% of the public offering price of the securities). In addition, the Company issued to the placement agent as compensation for its services 194,450 common share purchase warrants with an exercise price of \$32.907 (US\$23.625) per common share. The warrants are exercisable upon issuance and have an expiry date of November 1, 2029. The shares offered as Brokers' Compensation related to the November 2024 Offering were recognized in equity.

The fair value of the broker compensation warrants at the closing of the November 2024 Offering was \$187,468, calculated using the Black Scholes model.

The share issuance costs related to the November 2024 Offering that were recognized in the consolidated statements of net loss and comprehensive loss was \$1,807,686 and recognized in equity were \$227,557, inclusive of the broker compensation warrants.

	Initial Recognition
Number of warrants	194,450
Stock price (in USD)	\$ 0.93
Exercise price (in USD)	\$ 1.13
Volatility	103 %
Dividend yield	Nil
Risk free rate	2.92 %
Expected life (in years)	5
Exchange rate (USD/CAD)	\$ 1.3932
Fair value per warrant (CAD)	\$ 0.69

Debt Settlement (November 2024)

On November 11, 2024, we issued 5,669 common shares at a deemed price per common share of \$17.64 per share, representing a 20% discount on the closing price of the Shares on the TSX Venture Exchange on the last trading day prior to the news release, for settlement of business expenses incurred while representing the Company in an aggregate amount of \$100,000 owed to a company controlled by Mr. David Luxton, Chairman of the Company.

Private Placement (November 2024)

On November 12, 2024, the Company closed a brokered private placement offering to an institutional accredited investor for aggregate gross proceeds of approximately \$3.4 million (approximately US\$2.5 million) (the "November 2024 PP").

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

As a part of the November 2024 PP, the Company issued 4,145,200 pre-funded warrants to acquire common shares of the Company on a basis of twenty-one warrants to one common share, with no par value at a price of \$0.824 per pre-funded warrant, inclusive of the exercise price of \$0.021 per common share. Each pre-funded warrant was bundled with one common share purchase warrant ("November 2024 Common Warrant") of the Company. Each November 2024 Common Warrant was immediately exercisable on the basis of twenty-one warrants to one common share at an exercise price of \$21.63 per common share for a period of 60 months following the closing of the November 2024 PP. Although the pre-funded warrants are each bundled with a November 2024 Common Warrant, each security is issued separately. Since the instruments were bundled the Company bifurcated the fair value based on the residual method to determine the fair value of each security. The Black Scholes model was used to determine the fair value of the underlying November 2024 Common Warrant, and the remainder of the purchase price was allocated to the pre-funded warrant, resulting in a fair value of the November 2024 Common Warrants of \$0.765 and a fair value of \$0.06 for the pre-funded warrants.

	Initial Recognition
Number of warrants	4,145,200
Stock price (in CAD)	\$ 1.00
Exercise price	\$ 1.03
Volatility	103 %
Dividend yield	Nil
Risk free rate	2.92 %
Expected life (in years)	5
Fair value per warrant (CAD)	\$ 0.765

In fiscal 2025, the 4,145,200 pre-funded warrants and 350,000 November 2024 Common Warrants were subsequently exercised into 197,391 and 16,667 common shares, respectively. The pre-funded warrants and the Common Warrants were converted at an exercise price is \$0.0610 and \$1.03, respectively for total proceeds of \$880,000 in fiscal 2025.

Brokers' Compensation and Share Issuance Costs

In connection with the November 2024 Offering, Wainwright was granted a tail obligation resulting in earning 7.5% on any equity financing raised from investors introduced to the Company as part of the offering. The November 12, 2024, financing fell entirely within the scope of the tail obligation and resulted in a payment of \$259,534 (US\$184,047), representing 7.5% of the \$3.4 million (US\$2.5 million) gross proceeds to Wainwright upon closing of the transaction.

ThinkEquity acted as sole placement agent for the Offering. As compensation for services rendered, the Company (i) paid to ThinkEquity, at the closing of the November 2024 PP, a cash fee equal of \$274,027 (US\$196,400), representing 8.0% of the aggregate gross proceeds of the November 2024 PP; and (ii) issued to ThinkEquity or its designees 207,260 warrants ("Placement Agent Warrants") to purchase common shares on the basis of twenty-one warrants to one common share, equal to 5% of the pre-funded warrants sold in the November 2024 PP. The Placement Agent Warrants are immediately exercisable, and entitle the holder to acquire one common share at an exercise price of \$21.63 per common share for a period of 60 months following the closing of the November 2024 PP.

The fair value of the Placement Agent Warrants at the closing of the November 2024 PP was \$158,554, calculated using the Black Scholes model.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

The share issuance costs related to the November 2024 PP that were recognized in equity were \$681,185, inclusive of the Placement Agent Warrants.

	Initial Recognition
Number of warrants	207,260
Stock price (in CAD)	\$ 1.00
Exercise price	\$ 1.03
Volatility	103 %
Dividend yield	Nil
Risk free rate	2.92 %
Expected life (in years)	5
Fair value per warrant (CAD)	\$ 0.765

2024 Activities

Debt Settlement (January 2024)

On January 10, 2024, the Company issued 222 common shares in a settlement of debt in an amount of approximately \$97,615. The debt resulted from a tail obligation relating to services rendered by a third-party consultant, which the Company has elected to pay in common shares. The common shares issued pursuant to the Debt Settlement (signed October 31, 2023) were subject to a four-month hold period pursuant to applicable securities legislation and the policies of the TSX Venture Exchange.

US Public Offering (April 2024)

On April 9, 2024, the Company closed a brokered US public offering, resulting in the issuance of 3,500 common shares of DEFSEC, for aggregate gross proceeds of \$1.4M (US\$1.0M) (the "April 2024 Public Offering").

As part of the April 2024 Public Offering, the Company issued 3,500 common shares and 803,500 pre-funded warrants with an exercise price of \$0.21 ("Pre-funded Warrants") at a public offering price of \$184.80 (US\$136.50) per share and \$0.881 (US\$0.649) per Pre-funded Warrant, less the underwriting discount. The warrants have a conversion ratio of 210 warrants for one common share.

Brokers' Compensation and Share Offering Costs

ThinkEquity acted as sole book-running manager for the April 2024 Public Offering. As compensation for services rendered, the placement agent fees represent \$10.24 per unit (being an aggregate of \$101,838 (US\$75,002) or 7.5% of the public offering price of the securities). In addition, the Company issued 76,925 warrants to purchase 366 Common Shares (the "Placement Agent Warrants"), representing 5% of the Common Shares and Pre-Funded Warrants sold in the April 2024 Public Offering. The Placement Agent Warrants will be exercisable, in whole or in part, immediately upon issuance and will expire 60 months after the closing date of the April 2024 Public Offering at an initial exercise price of \$231.67 (US\$170.63) per Common Share. The share offering costs related to the April 2024 Public Offering that was recognized in the consolidated financial statements of net loss and comprehensive loss was \$339,324 and recognized in equity was \$269,400.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

The fair value of the Placement Agent Warrants at the closing of the April 2024 Public Offering was \$43,868, calculated using the Black Scholes model, and total share offering costs were \$608,724.

	<u>Initial Recognition</u>
Number of warrants	76,925
Stock price (in USD)	\$ 156.45
Exercise price (in USD)	\$ 0.81
Black Scholes fair value (in USD)	\$ 0.42
Volatility	66 %
Risk free rate	3.86 %
Expected life	5
Exchange (USD/CAD)	1.3578
Fair value per warrant (CAD)	\$ 0.57

The share price is based on the historical share price adjusted for the 2024 and 2025 Reverse Split.

US Public Offering (June 2024)

On June 14, 2024, the Company closed a brokered US public offering, resulting in the issuance of 13,809 common shares of DEFSEC, for aggregate gross proceeds of approximately \$2.3M (US\$1.7M) (the “June 2024 Public Offering”).

As a part of the June 2024 Public Offering, the Company issued 13,809 common shares at a public offering price of \$168.00 (US\$121.80) per share, less the placement agent fees.

Brokers’ Compensation and Share Offering Costs

ThinkEquity acted as sole book-running manager for the June 2024 Public Offering. As compensation for services rendered, the placement agent fees represent \$9.14 per common share (being an aggregate of \$173,469 (US\$126,150) or 7.5% of the public offering price of the securities). In addition, the Company issued to the placement agent 145,000 common share purchase warrants with an exercise price of \$210.00 (US\$152.25) per Common Share, exercisable, in whole or in part, immediately upon issuance and will expire 60 months after the closing date of the June 2024 Public Offering. The warrants have a conversion ratio of 210 warrants for one common share. All of the share offering costs related to the June 2024 Public Offering were recognized in equity.

The fair value of the broker compensation warrants at the closing of the June 2024 Public Offering was \$61,213, calculated using the Black Scholes model, and total share offering costs were \$384,509.

	<u>Initial Recognition</u>
Number of warrants	145,000
Stock price (in USD)	\$ 5.77
Exercise price (in USD)	\$ 7.25
Black Scholes fair value (in USD)	\$ 3.07
Volatility	66 %
Dividend yield	Nil
Risk free rate	3.86 %
Expected life	5
Exchange (USD/CAD)	1.3571
Fair value per warrant (CAD)	\$ 0.42

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements

Years ended September 30, 2025, 2024 and 2023.

(Expressed in Canadian dollars)

US Registered Direct Offering (August 2024)

On August 13, 2024, the Company closed a registered direct offering for the purchase and sale of 22,452 common shares at a purchase price of \$57.54 (US\$42.00) per common share for gross proceeds of \$1.4M (US\$0.9M) (the "August 2024 Offering"). In a concurrent private placement, the Company issued unregistered warrants to purchase up to 471,500 common shares at an exercise price of \$72.03 (US\$52.50) per share that are immediately exercisable upon issuance and will expire five years following the date of issuance. The warrants have a conversion ratio of 210 warrants for one common share.

Brokers' Compensation and Share Offering Costs

H.C. Wainwright & Co. acted as the exclusive placement agent for the August 2024 Offering. As compensation for services rendered, the placement agent fees were US\$70,725 or 7.5% of the public offering price of the securities). In connection with the closing of the August 2024 Offering, the Company issued Wainwright or its designees warrants to purchase up to an aggregate of 1,683 common shares at an exercise price of US\$52.50 per share, the warrants are exercisable upon issuance and have an expiry date of August 9, 2029. The shares offered as Brokers' Compensation related to the August 2024 Offering were recognized in equity.

In connection with the August 2024 Offering, Wainwright was also granted a tail obligation resulting in earning 7.5% on any equity financing raised from investors introduced to the Company as part of the offering. The November 1, 2024, and November 12, 2024, financings fell entirely within the scope of the tail obligation and resulted in a payment of 7.5% of the gross proceeds to Wainwright upon closing of those transactions.

The fair value of the broker compensation warrants at the closing of the August 2024 Offering was \$28,632, calculated using the Black Scholes model. The share offering costs related to the August 2024 Offering that was recognized in the consolidated financial statements of net loss and comprehensive loss was \$202,242 and recognized in equity was \$281,869.

	Initial Recognition
Number of warrants	353,625
Stock price (in USD)	\$ 30.09
Exercise price (in USD)	\$ 0.25
Black Scholes fair value (in USD)	\$ 0.06
Volatility	91 %
Dividend yield	Nil
Risk free rate	3.12 %
Expected life	2.5
Exchange (USD/CAD)	1.3723
Fair value per warrant (CAD)	\$ 0.08

2023 Activities***Share Consolidation***

On October 28, 2022, the Company finalized the consolidation of Company's common shares on the basis of one post-consolidation common share for every seventy pre-consolidation common shares issued and outstanding.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

U.S. IPO and Canadian Offering

On December 9, 2022, we closed the U.S. IPO and the Canadian Offering. In the U.S. IPO, we sold 11,904 common shares and 2,500,000 warrants at a public offering price of US\$867.30 per common share and \$4.13 per warrant. The warrants have a per share exercise price of US\$1,050.00 and can be exercised immediately. The warrants have a conversion ratio of 210 warrants for one common share. 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 ("Pre-Funded Warrants") at US\$4.12 (before underwriter discount) and 375,000 option warrants to purchase common shares at US\$0.021 each. The warrants have a conversion ratio of 210 warrants for one common share. A Pre-Funded Warrant is a financial instrument that requires the holder to pay little consideration (exercise price of US\$2.10 per share) to receive the common share upon exercise of the Pre-Funded Warrant (see Note 15). The holder of Pre-Funded Warrants has no voting rights. All of these warrants expire on December 9, 2027.

In the Canadian Offering, we sold 3,459 common shares and 726,392 warrants at a price to the public of US\$867.30 per common share and \$4.13 per warrant. The warrants will have a per common share exercise price of US\$1,050.00, are exercisable immediately and expire in five years on December 9, 2027. The warrants have a conversion ratio of 210 warrants for one common share. Effective May 1, 2023, the warrants are listed on the TSX-V under the stock symbol of DFSC.WT.U.

The closing of the U.S. IPO and Canadian Offering resulted in aggregate gross proceeds of \$19.4 million (US \$14.1 million), before deducting underwriting discounts and offering expenses.

The common shares of DEFSEC and the Warrants sold in the U.S. IPO began trading on the Nasdaq Capital Market under the symbols "DFSC" and "DFSCW", 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.

Accounting Treatment

Refer to Note 15 for the accounting of the warrants issued in the U.S. IPO and Canadian Offering and the July 2023 Private Placement accounted for as warrant liabilities.

The U.S. underwriter warrants as well as the Canadian broker options from the U.S. IPO and Canadian Offering, 134,950 warrants and 50,848 warrants respectively, were accounted for as equity on initial recognition. The U.S. underwriter warrants from the July 2023 Private Placement, 123,637 warrants, was accounted for as equity on initial recognition.

Brokers' Compensation and Share Offering Costs

As consideration for the services provided in connection with the U.S. IPO, ThinkEquity received: (a) a broker-dealer cash commission of US\$835,000 (or CAD\$1,138,105) equal to 7.5% of the gross offering proceeds of the U.S. Offering; and (b) underwriter warrants (the "U.S. Underwriter Warrants") to purchase up to 642 common shares equal to 5% of the common shares and pre-funded common share purchase warrants issued under the U.S. Offering. 14,700 U.S. Underwriter Warrants are exercisable to acquire one common share at a price of US\$1,084.13 per share, exercisable as of June 4, 2023, and expiring on December 9, 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 (or CAD\$286,230); and (b) 50,848 compensation options (the "Canadian Compensation Options"). Each Canadian Compensation Option is exercisable to acquire one Canadian Unit at a price of US\$867.30 per share and expiring on December 9, 2024.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements

Years ended September 30, 2025, 2024 and 2023.

(Expressed in Canadian dollars)

In addition to the above brokers' compensation, we also incurred US\$2.1 million of share offering costs (or CAD\$2.8 million) for the U.S. IPO and Canadian Offering, of which CAD\$628,262 was incurred and deferred at September 30, 2022.

The total brokers compensation (including fair value of U.S. Underwriter Warrants and Canadian Compensation Options) and share offering costs was US\$3.2 million (or CAD\$4.4 million). This total was allocated proportionately to the fair value of common shares and to share offering costs for the portion allocated to warrants accounted for as warrant liabilities.

Shares for Debt Settlement (December 2022)

We entered into share for debt arrangements with existing lenders, which closed on December 13, 2022, following TSXV's conditional approval. This resulted in issuing 267 Units to settle \$12,000 of the March 2022 Loans and USD\$223,321 (or CAD\$302,197) of the August 2022 Loans, including unpaid accrued interest and 10% premium at maturity (the "Debt Settlements"). The terms of the Units are the same as the Units issued in the Canadian Offering.

Private Placement (July 2023)

On July 21, 2023, the Company closed a brokered private placement, resulting in the issuance of 7,343 common shares of DEFSEC, for aggregate gross proceeds of USD\$5,588,397 (approximately CAD\$7.4M) (the "July 2023 Offering").

As part of the July 2023 Offering, the Company issued 7,343 common shares at a price of US\$474.60 (CAD\$625.80) per common share (each a "Common Share") and 930,548 pre-funded warrants at price of US\$2.26 (CAD\$2.98) per pre-funded warrant (each a "Pre-funded Warrant"). Each Common Share and Pre-funded Warrant being bundled with one common share purchase warrant of the Company (each a "Common Warrant"). For every 210 Pre-funded Warrants the holder is entitled to acquire one Common Share at an exercise price of US\$0.21 per Common Share, and each Common Warrant is immediately exercisable and 210 Common Warrants entitles the holder to acquire one Common Share at an exercise price of US\$558.60 (CAD\$735.00) per Common Share for a period of 60 months following the closing of the July 2023 Offering. Although the Common Shares and Pre-funded Warrants are each bundled with a Common Warrant, each security is issued separately.

Brokers' Compensation and Share Offering Costs

ThinkEquity acted as sole placement agent for the Offering. As compensation for services rendered, the Company paid to ThinkEquity a cash fee of \$475,013.14 representing 8.5% of the aggregate gross proceeds of the Offering and issued 123,367 warrants to purchase a 587 Common Shares (the "Placement Agent Warrants"), representing 5% of the Common Shares and Pre-Funded Warrants sold in the Offering. The Placement Agent Warrants will be exercisable, in whole or in part, immediately upon issuance and will expire 60 months after the closing date of the Offering at an initial exercise price of US\$558.60 (CAD\$735.00) per Common Share.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

(b) Warrants

The following reflects the warrant activities:

	September 30, 2025		September 30, 2024	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of year	11,600,589	\$ 3.04	15,507,862	\$ 2.24
Issued	20,425,318	0.50	6,094,050	0.32
Exercised	(11,243,900)	0.09	(1,781,323)	0.00
Expired	(575,000)	5.01	(8,220,000)	0.21
Balance, end of year	20,207,007	\$ 2.45	11,600,589	\$ 3.04
Exercisable, end of year	20,207,007	\$ 2.45	11,475,598	\$ 3.07

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

The following table provides additional information on the total outstanding warrants at September 30, 2025:

	Exercise Price	Number outstanding	Conversion ratio to Common Shares	Underlying Securities	Book value	Expiry Date
Classified as Equity:						
LEC's Warrants	CAD\$0.70	500,000	14,700 for 1	34	\$ 425,000	April 29, 2026
December 2022 U.S. Underwriter Warrants	US\$5.1625	134,950	210 for 1	643	189,592	December 9, 2027
July 2023 U.S. Underwriter Warrants	US\$2.66	123,637	210 for 1	589	204,187	July 21, 2028
April 2024 U.S. Underwriter Warrants	US\$0.8125	76,925	210 for 1	366	43,869	April 9, 2029
June 2024 U.S. Underwriter Warrants	US\$0.725	145,000	210 for 1	690	61,213	June 14, 2029
August 2024 U.S. Underwriter Warrants	US\$0.25	353,625	210 for 1	1,684	28,826	August 9, 2029
November 2024 U.S. Underwriter Warrants	US\$1.125	194,450	21 for 1	9,260	187,468	November 1, 2029
November 2024 Private Placement Warrants	US\$1.03	3,795,200	21 for 1	180,724	2,903,328	November 11, 2029
November 2024 PP Underwriter Warrants	US\$1.03	207,260	21 for 1	9,870	158,554	November 11, 2029
February 21, 2025 PP Warrants	CAD\$1.16	3,787,879	21 for 1	180,375	2,196,970	February 21, 2030
February 21, 2025 PP Underwriter Warrants	CAD\$1.16	189,394	21 for 1	9,019	109,991	February 21, 2030
February 25, 2025 PP Warrants	CAD\$1.16	151,515	21 for 1	7,215	83,939	February 25, 2030
February 25, 2025 PP Underwriter Warrants	CAD\$1.16	7,576	21 for 1	361	4,197	February 25, 2030
July 2025 Public Offering Warrants	CAD\$10.52	759,879	1 for 1	759,879	3,129,057	July 25, 2030
July 2025 Prefunded Warrants	CAD\$0.001	31,265	1 for 1	31,265	29,667	July 25, 2030
July 2025 Broker Warrants	CAD\$10.52	56,991	1 for 1	56,991	451,255	July 25, 2030
November 2024 Issuance Costs					(868,653)	
February 2025 Issuance Costs					(803,109)	
July 2025 Issuance Costs					(770,939)	
		10,515,546		1,248,965	\$ 7,764,412	
Classified as liability:						
December 2022 Public Offerings	US\$5.00	3,226,392	210 for 1	15,363	180,107	December 9, 2027
December 2022 Debt Settlement	US\$5.00	56,141	210 for 1	267	3,135	December 9, 2027
July 2023 Public Offerings	US\$2.66	1,542,194	210 for 1	7,343	—	July 21, 2028
July 2023 Pre-Funded Warrants	US\$0.001	151,734	210 for 1	723	1,469	No expiry
August 2024 Public Offering	US\$0.25	4,715,000	210 for 1	22,452	26,254	August 9, 2029
		9,691,461		46,148	210,965	
Total outstanding warrants		20,207,007		1,295,113	\$ 7,975,377	

The fair value for the warrants issued during the year ended September 30, 2025, was determined by the Black Scholes option pricing model using the assumptions outline in Note 16(a).

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

(c) Contributed surplus

Contributed surplus consists of issued broker compensation options at fair value, the cumulative amortized fair value of share-based compensation grants since inception, less amounts transferred to share capital for exercises. If outstanding options expire or are forfeited, there is no reversal of contributed surplus.

Broker Compensation Options

In the 2023 Canadian Offering, 50,848 Canadian Compensation Options were issued. For every 210 Canadian Compensation Option are exercisable to acquire one common share, as defined in Note 16(a), at a price equal to \$1,182.09 (US\$867.30) for a period of two years (expiring on December 9, 2024). Based on the structure of the Compensation Option, management estimated its fair value using the Monte Carlo method (Level 2). The Company used the following key inputs in the Monte Carlo model (100,000 simulations):

	<u>Initial Recognition</u>
Number of securities	50,848
Exercise price – compensation option (in USD)	\$ 4.13
1 – Year CAD/USD forward exchange rate	\$ 1.3560
Exercise price – compensation warrant (in USD)	\$ 1,050.00
2 – Year CAD/USD forward exchange rate	\$ 1.3483
Share price (in CAD)	\$ 882.00
Expected life – compensation option	1.00
Expected life – compensation warrant	2.50
Dividend	\$ Nil
Volatility – compensation option	90 %
Volatility – compensation warrant	75 %
Risk free rate – compensation option	4.38 %
Risk free rate – compensation warrant	3.15 %
Fair value per warrant (CAD)	\$ 2.46

In 2024 the Company recorded \$125,086 of Canadian Compensation Options in contributed surplus, with an equal offset to share offering costs (a non-cash transaction).

Share-based compensation

On August 26, 2024, DEFSEC shareholders approved the renewal of the Long-Term Incentive Plan (the “LTIP”). The number of RSUs, PSUs, DSUs, and SARs (collectively “Share Units”) authorized for issuance pursuant to the LTIP is 1,939 Share Units. Accordingly, the Company has 710 Share Units available for future grants.

Further, the disinterested shareholders (shareholders that are not directors, officers, or other insiders of the Company) of DEFSEC approved to revise the exercise price of 2,427 stock options to \$756.00, the closing price of DEFSEC common shares on the TSX-V on March 31, 2023. In accordance with IFRS 2, this resulted in an immediate fair value increase of \$77,001 included in share-based compensation, with an offset to contributed surplus.

For the year ended September 30, 2025, the Company recorded share-based compensation of \$113,692 (2024 - \$291,761, 2023 - \$373,554).

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

(i) Stock Options

The following is summary of changes in outstanding stock options for the respective periods:

	Number of options	Weighted average exercise price
Outstanding, at September 30, 2023	1,856	\$ 588.00
Cancelled	(627)	653.10
Outstanding, at September 30, 2024	1,229	555.24
Cancelled	(234)	664.41
Outstanding, at September 30, 2025	995	\$ 555.42
Options Exercisable, at September 30, 2025	995	\$ 555.42

At September 30, 2025, all stock options had vested; therefore, the weighted average remaining vesting period was nil years (2024 – 0.87 years, 2023 - 1.87 years).

The following table summarizes information about stock options outstanding at September 30, 2025:

Exercise Price	Number outstanding	Weighted average remaining contractual life	Weighted average outstanding strike price	Exercisable	Remaining exercisable contractual life	Weighted average exercisable strike price
\$ 535.50	905	0.88	\$ 535.50	905	0.88	\$ 535.50
\$ 756.00	90	0.49	756.00	90	0.49	756.00
	995	0.84	\$ 555.42	995	0.84	\$ 555.42

Amendment to stock option grants

For the years ended September 30, 2025 and 2024, the Company had no amended stock option grants.

(ii) Share Units

The following table shows the changes in Share Units:

	RSUs	PSUs	SARs	Total
Balance at September 30, 2023	108	\$ —	\$ 265	\$ 373
Granted	—	—	—	—
Vested and converted to common shares	—	—	—	—
Vested and repurchased for withholding taxes	—	—	—	—
Expired/Cancelled	(108)	—	(265)	(373)
Balance at September 30, 2024	—	—	—	—
Granted	—	—	—	—
Expired/Cancelled	—	—	—	—
Balance at September 30, 2025	—	—	—	—

RSUs:

Each RSU entitles the holder to receive one common share in the future, based on continued service during the applicable period.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

During the year ended September 30, 2025, the Company did not grant any RSUs (2024 – nil, 2023 – nil). There were no outstanding RSUs at September 30, 2025 (2024 – nil outstanding).

PSUs:

Each PSU entitles the holder to receive one common share in the future, based on the achievement of established performance criteria and continued service during the applicable performance period.

During the year ended September 30, 2025, the Company did not grant any PSUs (2024 – nil 2023 – nil). There were no outstanding PSUs at September 30, 2025 (2024 – nil, 2023 - fully vested).

SARs:

Each SAR entitles the holder to receive cash or common share at Company's discretion in the future, based on continued service during the applicable period. The amount of the cash payment or the value of common shares is determined based on the increase of the share price of DEFSEC between the grant date and the exercise date. Because the Company intends to always settle in common shares, the SARs are recorded as equity-settled awards.

During the year ended September 30, 2025, the Company did not grant any SARs (2024 – nil, 2023 - nil). There were no outstanding SARs at September 30, 2025 (2024 – nil).

(iii) Share-based Compensation

For the year ended September 30, 2025, the Company recorded share-based compensation of \$113,692 (2024 - \$291,761, 2023 - \$373,554).

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

17. Loss per share

As disclosed in Note 1(b), and Note 1(c), the Reverse Splits have been applied retrospectively herein.

The following table summarizes the calculation of the weighted average basic number of basic and diluted common shares to calculate the loss per share as reported in the statements of net loss and comprehensive loss:

	Year ended September 30, 2025	Year ended September 30, 2024	Year ended September 30, 2023
Issued common shares, beginning of year	75,200	26,744	3,682
<i>Effect of shares issued from:</i>			
Debt settlements	5,017	160	213
2025 Private Placement	30,345	—	—
2025 U.S Public Offerings	127,028	—	—
Exercise of warrants	372,579	3,797	1
April 2024 U.S. Public Offering (Note 16(a))	—	1,663	—
June 2024 U.S. Public Offering (Note 16(a))	—	4,074	—
August 2024 U.S. Public Offering (Note 16(a))	—	2,944	—
December 2022 U.S. IPO and Canadian Offering (Note 16(a))	—	—	12,417
Over-allotment Pre-Funded Warrants (Note 15)	—	—	765
July 2023 Private Placement (Note 16(a))	—	—	1,428
July 2023 Pre-Funded Warrants (Note 15)	—	—	861
Conversion of stock units	—	—	56
Exercise of options	—	—	12
Weighted average number of basic common shares	610,169	39,382	19,435
<i>Dilutive securities</i>			
Stock options	—	—	—
Warrants	—	—	—
Weighted average number of dilutive common shares	610,169	39,382	19,435

At September 30, 2025, 2024 and 2023, all dilutive securities were anti-dilutive because of net loss recorded for each of those years.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

18. Revenue

a) Revenue streams

DEFSEC generates revenue from the sale of products and services to its customers.

b) Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographical market, major products and service lines, and timing of revenue recognition.

	Year ended September 30, 2025	Year ended September 30, 2024	Year ended September 30, 2023
Major products/service lines			
Digitization	\$ 4,018,625	\$ 1,034,257	\$ 819,604
Less-Lethal	914,150	465,082	411,758
Training and services	8,700	1,028	—
Other	1,151	3,961	3,088
	<u>\$ 4,942,626</u>	<u>\$ 1,504,328</u>	<u>\$ 1,234,450</u>
Primary geographic market			
United States	\$ 364,362	\$ 155,103	\$ 42,780
Canada	4,578,264	1,349,225	743,200
Europe	—	—	448,470
	<u>\$ 4,942,626</u>	<u>\$ 1,504,328</u>	<u>\$ 1,234,450</u>
Timing of revenue recognition			
Products and services transferred over time	4,027,325	1,035,285	\$ 819,604
Products transferred at a point in time	915,301	469,043	414,846
	<u>\$ 4,942,626</u>	<u>\$ 1,504,328</u>	<u>\$ 1,234,450</u>

Revenue allocated to remaining performance obligations represents contracted revenue that has not yet been recognized (“contracted not yet recognized”) and includes unearned revenue and amounts that will be invoiced and recognized as revenue in future periods. At September 30, 2025, Company’s contracted not yet recognized revenue was \$12,000 (2024 - \$261,815, 2023 - \$496,199), of which 100% of this amount is expected to be recognized over the next 12 months.

For the year ended September 30, 2025, two customers accounted for 65% and 12% (2024 – two customers accounted for 36% and 20%, 2023 - two customers accounted for 23% and 18%) of revenue.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

19. Expenses by nature

The following table presents a breakdown of expenses by nature for the following years:

	Year ended September 30, 2025	Year ended September 30, 2024	Year ended September 30, 2023
Employee benefits	\$ 7,389,432	\$ 4,378,885	\$ 2,638,369
Professional fees	1,364,773	967,938	940,667
R&D consulting and material costs, net	758,485	774,261	556,013
Consulting fees	638,366	1,294,949	2,743,272
Insurance	636,967	690,014	716,931
Other expenses	544,798	434,682	691,566
Travel and conferences	222,405	385,759	804,481
Transfer agent and listing fees	175,878	151,854	120,690
Advertising and promotion	636	60,823	19,090
Impairment of inventory	—	113,283	—
Impairment of intangible assets	—	—	1,174,354
Royalty and license costs	—	—	305,918
Total expenses	\$ 11,731,740	\$ 9,252,448	\$ 10,711,351
Allocation of cost of sales			
Employee benefits	(2,100,660)	(536,245)	(123,803)
Total operating expenses	\$ 9,631,080	\$ 8,716,203	\$ 10,587,548

20. Net finance costs

The following table presents a breakdown of net finance costs for the following years:

	Year ended September 30, 2025	Year ended September 30, 2024	Year ended September 30, 2023
Interest expense from:			
Unsecured loan	\$ —	\$ —	\$ 503,251
Accretion cost – accrued royalties liability	168,874	180,965	170,373
Lease obligations	78,909	70,351	37,786
CEBA term loan	—	—	8,281
Other	6,930	694	3,857
Total interest expense	254,713	252,010	723,548
Interest income	(81,838)	(55,687)	(55,514)
Gain on debt settlement	500	—	—
Net finance costs	\$ 173,375	\$ 196,323	\$ 668,034

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

21. Income taxes

a) Income tax recovery

Income tax recovery is made up of the following components:

	Year ended September 30, 2025	Year ended September 30, 2024	Year ended September 30, 2023
Current income tax recovery (expense):	\$ —	\$ —	\$ —
Deferred income tax (recovery) expense:	—	—	—
Net finance costs	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

b) Reconciliation of effective income tax rate

The Company's effective income tax rate differs from the statutory rate of 26.5% that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to loss before income taxes. These differences result from the following:

	Year ended September 30, 2025	Year ended September 30, 2024	Year ended September 30, 2023
Loss before income taxes	\$ (9,626,694)	\$ (7,437,759)	\$ (9,306,360)
Expected statutory tax rate	26.5 %	26.5 %	26.5 %
Expected tax recovery resulting from loss	(2,551,074)	(1,971,006)	(2,466,185)
Increase (reduction) in income taxes resulting from:			
Non-deductible expenses	96,873	130,295	149,270
Foreign operations subject different tax rates	—	(21)	1,447
Fair value of warrant liabilities	(351,270)	(814,569)	(1,547,916)
Unrecognized temporary differences	2,805,471	2,655,301	3,863,384
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

c) Deferred tax balances

The following tables deferred tax assets (liabilities) have been recognized in the consolidated financial statements:

	Balance at September 30, 2024	Recognized in profit or loss	Balance at September 30, 2025
Deferred tax assets (liabilities)			
Net operating loss carry forwards	\$ 13,598	\$ 17,489	\$ 31,087
Unrealized foreign exchange gains on loans	—	(13,108)	(13,108)
Intangibles and development costs	(13,598)	(4,381)	(17,979)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
	Balance at September 30, 2023	Recognized in profit or loss	Balance at September 30, 2024
Deferred tax assets (liabilities)			
Net operating loss carry forwards	\$ 16,869	\$ (3,271)	\$ 13,598
Intangibles and development costs	(16,869)	3,271	(13,598)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
	Balance at September 30, 2022	Recognized in profit or loss	Balance at September 30, 2023
Deferred tax assets (liabilities)			
Net operating loss carry forwards	\$ 26,459	\$ (9,590)	\$ 16,869
Intangibles and development costs	(26,459)	9,590	(16,869)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

d) Unrecognized net deferred tax assets

Deferred taxes reflect the impact of loss carry forwards and of temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by enacted tax laws. However, DEFSEC has not recorded net deferred tax assets at September 30, 2025, and 2024 on the following deductible temporary differences, due to the uncertainty involved in determining whether these deferred tax assets will be realized upon expiration due to DEFSEC's limited history and cumulative operating losses since its inception.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

The following is a summary of DEFSEC's unrecognized deductible temporary differences:

	Year ended September 30, 2025	Year ended September 30, 2024	Year ended September 30, 2023
Net operating loss carry forwards	\$ 53,821,414	\$ 42,737,987	\$ 30,178,141
Share issuance costs	7,146,906	5,072,949	5,275,081
Property and equipment	226,120	1,379,540	1,399,023
Intangibles and development costs	3,501,940	171,182	1,356,922
Scientific R&D expenditures	1,583,058	1,583,058	1,583,058
Right of use asset and lease obligation	(1,165,181)	(130,912)	(75,115)
Right of use asset and lease obligation	1,303,444	203,068	143,601
Other	33,945	45,201	—
	<u>\$ 66,451,646</u>	<u>\$ 51,062,073</u>	<u>\$ 39,860,711</u>

e) Available net operating losses

At September 30, 2025, DEFSEC has the following net operating losses in Canada available to reduce future year's taxable income which expire as follows:

	Year ended September 30, 2025
2036	\$ 391,014
2037	747,861
2038	1,174,797
2039	1,732,039
2040	338,504
2041	5,518,336
2042	8,592,392
2043 and thereafter	35,326,471
	<u>\$ 53,821,414</u>

f) Available research and development investment tax credits

The Company has the following research and development investment tax credits available to reduce future years' income taxes payable which expire as follows:

	Year ended September 30, 2025
2038	\$ 13,361
2039	6,742
2040	—
2041	328,480
2043 and thereafter	—
	<u>\$ 348,583</u>

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

22. Financial instruments

Fair value of financial instruments

The fair values of cash and cash equivalents, restricted short-term investment, trade and other receivables (excluding sales tax recoverable), accounts payable and accrued liabilities, and deposit (included in non-current other assets), approximate carrying value because of the short-term nature of these instruments.

Under IFRS, the levels of fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not observable market data (unobservable inputs).

The warrant liabilities were recorded at fair value at initial recognition and are subsequently revalued at the end of each accounting period. The fair value measurement for these was Level 2.

The Company's lease deposits and accrued royalties are initially recorded at their fair value and are accreted to their nominal value over their respective terms. The fair value measurement for these is considered to be Level 2.

Financial risk management

The Company is exposed to a number of financial risks arising through the normal course of business as well as through its financial instruments. The Company's overall business strategies, tolerance of risk and general risk management philosophy are determined by the Board of Directors in accordance with prevailing economic and operating conditions.

(b) Foreign currency risk

Foreign currency risk is the risk that the future cash flows or fair value of financial instruments that are denominated in a currency that is not the Company's functional currency will fluctuate due to a change in foreign exchange rates.

For the year ended September 30, 2025, 7% (2024 – 10%, 2023 - 3%) of the Company's revenue was denominated in U.S. dollars. The Company also procures certain raw materials denominated in U.S. dollar for product development. Accordingly, the Company is exposed to the U.S. dollar currency. Where a natural hedge cannot be achieved, a significant change in the U.S. dollar currency could have a significant effect on the Company's financial performance, financial position, and cash flows. Currently, the Company does not use derivative instruments to hedge its U.S. dollar exposure. Throughout the year the Company held the majority of its cash assets in USD and converted to CAD on an as needed basis as the Company raises the majority of capital in USD.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

At September 30, 2025, the Company had the following net U.S. dollar exposure:

	Year ended September 30, 2025
US denominated	
Assets	\$ 4,627,168
Liabilities	(218,577)
Net US\$ exposure	<u>\$ 4,408,591</u>
Impact to profit if 5% movement in US\$	<u>\$ 220,430</u>

During the year ended September 30, 2025, the Company recorded foreign exchange gain of \$114,347 (2024 - \$59,191, 2023 - foreign exchange loss of \$98,275).

(c) Credit risk

Credit risk is the risk of financial loss to DEFSEC if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk exposure is limited to cash, and trade and other receivables. Refer to Note 4 for the breakdown of the Company's trade and other receivables. The Company enter into contracts with either large, financially sound global general contractors or law enforcement agencies, which mitigates the credit risk. At September 30, 2025, trade receivable balance was \$1,352,216 (2024 - \$455,049, 2023 - \$68,530), of which \$874,252 (2024 - \$319,777) was current. Included in this balance are two customers representing 75% and 20% (2024 - four customers representing 28%, 21%, 16% and 11%) of trade receivables, which is a potential concentration risk; however, as these relate to government of Canada contracts the risk of being uncollectable is very low.

(d) Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet the Company's financial obligations as they become due. the Company's objective is to ensure that the Company has sufficient cash to meet near-term obligations when they become due, under both normal and stressed condition, without incurring unacceptable losses or risking reputational damage to DEFSEC. A key risk in managing liquidity is the degree of uncertainty in the Company's cash flows due to its early stage in operations and the need for additional capital to fund business strategies.

At September 30, 2025, contractual obligations were as follows:

<i>Payment due:</i>	Total	Within 1 year	1 to 3 years	3 to 5 years	5 years and beyond
Minimum royalty commitments	\$ 2,000,000	\$ 200,000	\$ 500,000	\$ 600,000	\$ 700,000
Accounts payable and accrued liabilities	2,310,662	2,310,662	—	—	—
Lease obligations	2,250,220	169,053	617,088	414,488	1,049,591
Total contractual obligations	<u>\$ 6,560,882</u>	<u>\$ 2,679,715</u>	<u>\$ 1,117,088</u>	<u>\$ 1,014,488</u>	<u>\$ 1,749,591</u>

At September 30, 2025, the Company had \$6,686,429 in cash and \$6,027,820 in working capital (current assets less current liabilities).

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

23. Supplemental cash flow information

The following table presents changes in non-cash working capital:

	Year ended September 30, 2025	Year ended September 30, 2024	Year ended September 30, 2023
Trade and other receivables	\$ (925,914)	\$ (267,606)	\$ (128,387)
Inventories	13,554	9,225	(148,850)
Prepaid expenses and other	397	383,357	(440,242)
Deferred costs	(94,153)	(35,596)	—
Accounts payable and accrued liabilities	960,770	(257,257)	(1,666,486)
Contract liabilities	(112,900)	(399)	73,699
Warrant liabilities	—	(25,395)	—
Accrued royalties liability	(200,000)	(150,000)	—
	<u>\$ (358,246)</u>	<u>\$ (343,671)</u>	<u>\$ (2,310,266)</u>

The following is a summary of non-cash items that were excluded from the consolidated statements of cash flows for the year ended September 30, 2025:

- \$1,166,652 related to new leases entered into during the year;
- \$132,000 of warrants which expired during the year;
- 207,260 November 2024 private placement underwriter warrants as compensation for the offering;
- 194,450 November 2024 U.S. underwriter warrants as compensation for the offering;
- 196,970 February 2025 private placement underwriter warrants as compensation for the offering; and
- 56,991 July 2025 broker warrants.

The following is a summary of non-cash items that were excluded from the Statements of Cash Flows for the year ended September 30, 2024:

- 4,670 shares issued for debt settlement of \$97,615. The debt resulted in a tail obligation relating to services rendered by a third-party consultant;
- \$44,868 non-cash share offering costs as part of the net proceeds settlement at the closing of the April 2024 US Public Offering (see Note 16(a));
- \$61,213 non-cash share offering costs as part of the net proceeds settlement at the closing of the June 2024 US Public Offering (see Note 16(a));
- \$28,631 non-cash share offering costs as part of the net proceeds settlement at the closing of the August 2024 US Registered Direct Offering (see Note 16(a)); and
- 178,131 warrants exercised throughout Fiscal 2024 in connection with past financings (see Note 15).

The following is a summary of non-cash items that were excluded from the Statements of Cash Flows for the year ended September 30, 2023:

- \$2,924,880 non-cash share offering costs and \$453,102 accounts payables as part of the net proceeds settlement at the closing of the U.S. IPO and Canadian Offering;
- 25,000 warrants exercised in connection with the GhostStep™ acquisition in June 2020; and
- \$529,504 of shares issued for vested RSUs and PSUs.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)

Notes to Consolidated Financial Statements

Years ended September 30, 2025, 2024 and 2023.

(Expressed in Canadian dollars)

24. Segmented information

The Company's Chairman has been identified as the chief operating decision maker. The Chairman evaluates the performance of DEFSEC and allocates resources based on the information provided by the Company's internal management system at a consolidated level. The Company has determined that there is only one operating segment.

At September 30, 2025, we had no right-of-use assets (2024 – one for \$49,563), inventory of \$nil (2024 - \$153,087), and equipment \$nil (2024 - \$76,222,) in the United States while all other property and equipment are located in Canada.

25. Commitments and contingencies

The Company, under its LC4ISR Sub-Tier Subcontract, shall meet certain Industrial and Technological Benefits ("ITBs") targets as a condition for fulfilling the obligations in the contract. Such requirements are part of Canada's effort to promote economic development and increased competitiveness of the defence sector and develop, grow and sustain a diverse, talented, and innovative Canadian workforce. Under the obligations, DEFSEC will spend 100% of the contract-value as Supplier Development in Canada, specifically involving Small and Medium Business (employing fewer than 250 full-time personnel), and spend 20% of the contract value as transactions involving Skills Development and Training in the areas of Defence Systems Integration, Artificial Intelligence, Cyber Resilience, or In-Service Support. As all work under the contract is being executed in Canada by DEFSEC, 100% of the Small and Medium Business requirement is expected to be met. Achievement of the Company's Skills Development and Training requirement is expected to be met by transactions related to Senior Integrated Logistics Support Specialist ("ILS") related roles filled under its taskings, as these have been deemed by Canada to be eligible, and DEFSEC currently has four (4) such roles of its total 17 under current taskings. While these roles are expected to fulfill its obligations over the achievement period, any penalty by way of liquidated damages, is limited in its financial impact to a maximum of 20% of the shortfall (up to 4% of total contract value). Further mitigating any potential shortfall is the ability to achieve a five (5) times multiplier for any contribution to Skills Development and Training for Indigenous Peoples or majority Indigenous-controlled educational or training facilities. Based on billings to date under this contract, the Company may have an ITB spend obligation of \$134,000. Management believes it will meet the required targets within the specified timeframes. Accordingly, no liability has been recorded in these consolidated financial statements related to this commitment.

DEFSEC TECHNOLOGIES INC.
(formerly KWESST Micro Systems Inc.)
Notes to Consolidated Financial Statements
Years ended September 30, 2025, 2024 and 2023.
(Expressed in Canadian dollars)

26. Capital management

The Company's objective in managing capital is to safeguard its ability to continue as a going concern and to sustain future development of the business. The 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 the Company's growth strategy. The Board of Directors is responsible for overseeing this process. From time to time, the Company could issue equity instruments or debt to maintain or adjust the capital structure. DEFSEC is not subject to any externally imposed capital requirements.

DEFSEC's capital is composed of the following:

	September 30, 2025	September 30, 2024
Debt:		
Lease obligations	\$ 1,303,450	\$ 302,223
Warrant liability	210,965	847,295
Equity:		
Share capital	\$ 47,003,991	\$ 37,822,725
Warrants	7,764,412	1,084,687
Contributed surplus	5,398,445	5,152,753
Accumulated other comprehensive loss	(85,077)	(38,520)
Accumulated deficit	(52,280,052)	(42,653,358)
Total capital	\$ 9,316,134	\$ 2,517,805

27. Subsequent events

On October 31, 2025, the Company issued 31,265 shares of common stock upon the exercise of 31,265 pre-funded warrants, which were issued as part of the July 25, 2025, share offering. The exercise price of each pre-funded warrant was \$0.001 per share. The issuance was completed in accordance with the terms of the warrant agreements.

One December 17, 2025, the Company entered into definitive agreements for the purchase and sale of 566,040 Common Shares at a purchase price of CAD\$3.64 (US\$2.65) per Common Share in a registered direct offering. In a concurrent private placement, we issued unregistered warrants to purchase up to 566,040 Common Shares at an exercise price of CAD\$4.27 per Common Share that are immediately exercisable upon issuance and expire five years following the date of issuance. The closing of the offering occurred on December 18, 2025.

ITEM 19. EXHIBITS

Financial Statements

Description		Page
Consolidated Financial Statements and Notes		F-1- F-58
Exhibit No. Item	Description of Exhibit	
1.1	Articles of Amendment, as updated September 4, 2020 (incorporated by reference to Exhibit 3.2 to the Company's Form F-1 filed with the SEC on September 16, 2022)	
1.2	Articles of Amendment, as updated June 30, 2025	
1.3	Certificate of Name Change dated June 30, 2025	
2.1	Description of securities registered under Section 12 of the Exchange Act (incorporated by reference to Exhibit 2.1 to the Company's Annual Report on Form 20-F filed with the SEC on January 27, 2023)	
2.2	Form of Underwriter Warrant For U.S. IPO (incorporated by reference to Exhibit 4.1 to the Company's Form F-1 filed with the SEC on November 7, 2022)	
2.3	Form of Warrant Agency Agreement for U.S. IPO Warrants (incorporated by reference to Exhibit 4.2 to the Company's Form F-1 filed with the SEC on November 7, 2022)	
2.4	Form of U.S. IPO Warrant (incorporated by reference to Exhibit 4.3 to the Company's Form F-1 filed with the SEC on November 7, 2022)	
2.5	Form of U.S. IPO Pre-funded Warrant (incorporated by reference to Exhibit 4.4 to the Company's Form F-1 filed with the SEC on November 7, 2022)	
2.6	Form of Warrant Indenture for Canadian Warrants (incorporated by reference to Exhibit 4.5 to the Company's Form F-1 filed with the SEC on November 7, 2022)	
2.7	Form of Warrant Certificate for Canadian Warrants (incorporated by reference to Exhibit 4.6 to the Company's Form F-1 filed with the SEC on November 7, 2022)	
2.8	Form of Canadian Compensation Option Certificate (incorporated by reference to Exhibit 4.7 to the Company's Form F-1 filed with the SEC on November 7, 2022)	
2.9	Common Share Purchase Warrant Indenture between DEFSEC Technologies Inc. (formerly, "KWESST Micro Systems Inc.") and TSX Trust Company, dated April 29, 2021 (incorporated by reference to Exhibit 10.7 to the Company's Form F-1 filed with the SEC on September 16, 2022)	
2.10	First Supplemental Warrant Indenture between DEFSEC Technologies Inc. (formerly, "KWESST Micro Systems Inc.") and TSX Trust Company, dated August 25, 2021 (incorporated by reference to Exhibit 10.8 to the Company's Form F-1 filed with the SEC on September 16, 2022)	
2.11	Form of Private Placement Warrant (included in Exhibit 4.6 hereto)	
2.12	Form of Private Placement Pre-funded Warrant (included in Exhibit 4.6 hereto)	
2.13	Form of Private Placement Agent's Warrant (included in Exhibit 4.6 hereto)	
2.14	Form of Pre-funded Warrant dated April 4, 2024 (incorporated by reference to Exhibit 10.1 of the Company's Form 6-K filed with the SEC on April 8, 2024)	
2.15	Form of Underwriter Warrant dated April 4, 2024 (incorporated by reference to Exhibit 10.1 of the Company's Form 6-K filed with the SEC on April 8, 2024)	

Table of Contents

2.16	<u>Placement Agent Warrant dated June 12, 2024 (incorporated by reference to Exhibit 10.1 of the Company's Form 6-K, filed with the SEC on June 14, 2024)</u>
2.17	<u>Form of Warrant dated August 9, 2024 (incorporated by reference to Exhibit 4.1 of the Company's Form 6-K, filed with the SEC on August 12, 2024)</u>
2.18	<u>Form of Placement Agent Warrant dated August 9, 2024 (incorporated by reference to Exhibit 4.2 of the Company's Form 6-K, filed with the SEC on August 12, 2024)</u>
2.19	<u>Form of Placement Agent Warrant dated October 28, 2024 (incorporated by reference to Exhibit 4.1 of the Company's Form F-1 filed with the SEC on October 28, 2024)</u>
2.20	<u>Form of Pre-funded Warrant dated October 28, 2024 (incorporated by reference to Exhibit 4.2 of the Company's Form F-1 filed with the SEC on October 28, 2024)</u>
2.21	<u>Form of Amended Pre-funded Warrant dated November 12, 2024 (incorporated by reference to Exhibit 4.20 of the Company's Form F-3 filed with the SEC on November 29, 2024)</u>
2.22	<u>Form of Pre-funded Warrant dated November 12, 2024 (incorporated by reference to Exhibit 4.21 of the Company's Form F-3 filed with the SEC on November 29, 2024)</u>
2.23	<u>Form of Warrant dated November 12, 2024 (incorporated by reference to Exhibit 4.22 of the Company's Form F-3 filed with the SEC on November 29, 2024)</u>
2.24	<u>Form of Placement Agent Warrant dated November 12, 2024 (incorporated by reference to Exhibit 4.23 of the Company's Form F-3 filed with the SEC on November 29, 2024)</u>
2.25	<u>Form of Pre-funded Warrant dated February 21, 2025 (incorporated by reference to Exhibit 4.24 of the Company's Form F-3 filed with the SEC on February 26, 2025)</u>
2.26	<u>Form of Warrant dated February 21, 2025 (incorporated by reference to Exhibit 4.25 of the Company's Form F-3 filed with the SEC on February 26, 2025)</u>
2.27	<u>Form of Placement Agent Warrant dated February 21, 2025 (incorporated by reference to Exhibit 4.26 of the Company's Form F-3 filed with the SEC on February 26, 2025)</u>
2.28	<u>Form of Warrant dated February 24, 2025 (incorporated by reference to Exhibit 4.27 of the Company's Form F-3 filed with the SEC on February 26, 2025)</u>
2.29	<u>Form of Placement Agent Warrant dated February 24, 2025 (incorporated by reference to Exhibit 4.28 of the Company's Form F-3 filed with the SEC on February 26, 2025)</u>
2.30	<u>Form of Private Placement Warrant (included in Exhibit 4.14 hereto)</u>
2.31	<u>Form of Private Placement Pre-funded Warrant (included in Exhibit 4.14 hereto)</u>
2.32	<u>Form of Private Placement Agent's Warrant (included in Exhibit 4.14 hereto)</u>
2.33	<u>Form of Placement Agent Warrant dated July 22, 2025 (incorporated by reference to Exhibit 4.1 to the Company's Form F-1 filed with the SEC on July 22, 2025)</u>
2.34	<u>Form of Warrant (included in Exhibit 4.29 hereto)</u>
2.35	<u>Form of Pre-funded Warrant (included in Exhibit 4.29 hereto)</u>
2.36	<u>Form of Warrant dated December 17, 2025 (incorporated by reference to Exhibit 4.1 to the Company's Form 6-K filed with the SEC on December 18, 2025)</u>

[Table of Contents](#)

2.37	Form of Placement Agent Warrant dated December 17, 2025 (incorporated by reference to Exhibit 4.2 to the Company's Form 6-K filed with the SEC on December 18, 2025)
3.1	Voting Agreement among DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.), David Luxton, and Jeff MacLeod, dated September 14, 2020 (incorporated by reference to Exhibit 9.1 to the Company's Form F-1 filed with the SEC on September 16, 2022)
4.1	Long-Term Performance Incentive Plan, effective March 31, 2022 (incorporated by reference to Exhibit 10.9 to the Company's Form F-1 filed with the SEC on September 16, 2022)
4.2	Professional Services Agreement among KWESST Inc., DEFSEC Corporation and David Luxton, dated October 1, 2019 (incorporated by reference to Exhibit 10.11 to the Company's Form F-1 filed with the SEC on September 16, 2022)
4.3	Amended and Restated Employment Contract between KWESST Inc. and Sean Homuth, dated November 27, 2023 (incorporated by reference to Exhibit 4.9 to the Company's Annual Report on Form 20-F filed with the SEC on January 22, 2024)
4.4	Form of Placement Agency Agreement between DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) and ThinkEquity LLC, dated July 18, 2023 (incorporated by reference to Exhibit 10.13 to the Company's Form F-1 filed with the SEC on August 2, 2023)
4.5†	Form of Securities Purchase Agreement dated July 18, 2023 between DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) and the Purchasers (incorporated by reference to Exhibit 10.14 to the Company's Form F-1 filed with the SEC on August 2, 2023)
4.6	Form of Registration Rights Agreement dated July 18, 2023 (incorporated by reference to Exhibit 10.15 to the Company's Form F-1 filed with the SEC on August 2, 2023)
4.7	Amended Employment Contract between KWESST Inc. and Harry Webster, dated May 5, 2025 (incorporated by reference to Exhibit 10.12 to the Company's Form F-1 filed with the SEC on July 22, 2025)
4.8	Employment Contract between KWESST Inc. and Jennifer Welsh, dated February 3, 2025 (incorporated by reference to Exhibit 10.13 to the Company's Form F-1 filed with the SEC on July 22, 2025)
4.9	Underwriting Agreement by and between DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) and ThinkEquity LLC, dated April 4, 2024 (incorporated by reference to Exhibit 10.1 to the Company's Form 6-K furnished with the SEC on April 8, 2024)
4.10†	Sub-Tier Subcontract Agreement by and between KWESST Inc. and Thales Canada Inc., dated June 7, 2024 (incorporated by reference to Exhibit 10.1 to the Company's Form 6-K furnished with the SEC on June 12, 2024)
4.11	Placement Agency Agreement by and between DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) and ThinkEquity LLC, dated June 12, 2024 (incorporated by reference to Exhibit 10.1 to the Company's Form 6-K furnished with the SEC on June 13, 2024)
4.12	Form of Securities Purchase Agreement, by and between DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) and the Purchasers thereto dated August 9, 2024 (incorporated by reference to Exhibit 10.1 of the Company's Form 6-K, filed with the SEC on August 12, 2024)
4.13	Form of Placement Agency Agreement by and between DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) and ThinkEquity LLC, dated October 28, 2024 (incorporated by reference to Exhibit 1.1 of the Company's Form F-1 filed with the SEC on October 28, 2024)
4.14	Form of Securities Purchase Agreement, by and between DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) and the Purchasers thereto, dated November 12, 2024 (incorporated by reference to Exhibit 10.2 of the Company's Form F-3 filed with the SEC on November 29, 2024)

Table of Contents

4.15	<u>Form of Registration Rights Agreement, by and between DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) and the Purchasers thereto, dated November 12, 2024 (incorporated by reference to Exhibit 10.3 of the Company's Form F-3 filed with the SEC on November 29, 2024)</u>
4.16	<u>Form of Placement Agency Agreement, by and between DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) and ThinkEquity LLC, dated November 12, 2024 (incorporated by reference to Exhibit 10.4 of the Company's Form F-3 filed with the SEC on November 29, 2024)</u>
4.17	<u>Form of Securities Purchase Agreement between DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) and the Purchaser thereto dated February 21, 2025 (incorporated by reference to Exhibit 10.5 of the Company's Form F-3 filed with the SEC on February 26, 2025)</u>
4.18	<u>Form of Securities Purchase Agreement between DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) and the Purchaser thereto dated February 21, 2025 (incorporated by reference to Exhibit 10.5 of the Company's Form F-3 filed with the SEC on February 26, 2025)</u>
4.19	<u>Form of Registration Rights Agreement between DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) and the Purchaser thereto dated February 21, 2025 (incorporated by reference to Exhibit 10.6 of the Company's Form F-3 filed with the SEC on February 26, 2025)</u>
4.20	<u>Form of Placement Agency Agreement between DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) and ThinkEquity LLC dated February 21, 2025 (incorporated by reference to Exhibit 10.7 of the Company's Form F-3 filed with the SEC on February 26, 2025)</u>
4.21	<u>Form of Securities Purchase Agreement between DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) and the Purchaser thereto dated February 24, 2025 (incorporated by reference to Exhibit 10.8 of the Company's Form F-3 filed with the SEC on February 26, 2025)</u>
4.22	<u>Form of Registration Rights Agreement between DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) and the Purchaser thereto dated February 24, 2025 (incorporated by reference to Exhibit 10.9 of the Company's Form F-3 filed with the SEC on February 26, 2025)</u>
4.23	<u>Form of Placement Agency Agreement between DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) and ThinkEquity LLC dated February 24, 2025 (incorporated by reference to Exhibit 10.10 of the Company's Form F-3 filed with the SEC on February 26, 2025)</u>
4.24†	<u>Form of Securities Purchase Agreement between DEFSEC Technologies Inc. and the Purchaser thereto dated July 22, 2025 (incorporated by reference to Exhibit 10.29 to the Company's Form F-1 filed with the SEC on July 22, 2025)</u>
4.25	<u>Form of Securities Purchase Agreement between DEFSEC Technologies Inc. and the Purchasers thereto dated December 17, 2025 (incorporated by reference to Exhibit 10.1 to the Company's Form 6-K filed with the SEC on December 18, 2025)</u>
8.1	<u>List of Subsidiaries of DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) (incorporated by reference to Exhibit 21.1 to the Company's Form F-1 filed with the SEC on September 16, 2022)</u>
11.1	<u>Code of Business Conduct and Ethics</u>
11.2	<u>Information Disclosure Policy</u>
12.1	<u>Certification of the Chief Executive Officer pursuant to rule 13a-14(a) of the Securities Exchange Act of 1934</u>
12.2	<u>Certification of the Chief Financial Officer pursuant to rule 13a-14(a) of the Securities Exchange Act of 1934</u>
13.1	<u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>

[Table of Contents](#)

13.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1	Consent of KPMG LLP
15.2	Consent of MNP LLP
16.1	Letter from KPMG LLP Regarding Change in Certifying Accountant
97.1	Clawback Policy (incorporated by reference to Exhibit 97.1 to the Company's Annual Report on Form 20-F filed with the SEC on January 22, 2024)
101.INS	XBRL Instant Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File – (formatted as Inline XBRL and contained in Exhibit 101)

† Portions of this exhibit have been omitted in accordance with the rules of the SEC. DEFSEC Technologies Inc. agrees to furnish a copy of all omitted exhibits and schedules to the SEC upon its request.

SIGNATURES

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

DEFSEC TECHNOLOGIES INC.

Date: December 29, 2025

By: /s/ Jennifer Welsh

Name: Jennifer Welsh

Title: CFO and Chief Compliance Officer

[Name changed to DEFSEC Technologies Inc. effective June 30, 2025]

KWESST MICRO SYSTEMS INC.
(formerly FOREMOST VENTURES CORP.)

(the “Company”)

The Company has as its articles the following articles.

Full name and signature of a director	Date of signing
<i>“John McCoach”</i> John McCoach	September 4, 2020

Incorporation: BC1142900

KWESST MICRO SYSTEMS INC.
(formerly **FOREMOST VENTURES CORP.**)
(the “Company”)

TABLE OF CONTENTS

Contents

1.	INTERPRETATION	10
1.1	Definitions	10
1.2	<i>Business Corporations Act</i> and <i>Interpretation Act</i> Definitions Applicable	10
2.	SHARES AND SHARE CERTIFICATES	10
2.1	Authorized Share Structure	10
2.2	Form of Share Certificate	10
2.3	Shareholder Entitled to Certificate or Acknowledgement	11
2.4	Delivery by Mail	11
2.5	Replacement of Worn Out or Defaced Certificate or Acknowledgement	11
2.6	Replacement of Lost, Stolen or Destroyed Certificate or Acknowledgement	11
2.7	Splitting Share Certificates	11
2.8	Certificate Fee	12
2.9	Recognition of Trusts	12
3.	ISSUE OF SHARES	12
3.1	Directors Authorized	12
3.2	Commissions and Discounts	12
3.3	Brokerage	12
3.4	Conditions of Issue	12
3.5	Share Purchase Warrants and Rights	13
4.	SHARE REGISTERS	13
4.1	Central Securities Register	13
4.2	Closing Register	13
5.	SHARE TRANSFERS	13
5.1	Registering Transfers	13
5.2	Form of Instrument of Transfer	14
5.3	Transferor Remains Shareholder	14
5.4	Signing of Instrument of Transfer	14
5.5	Enquiry as to Title Not Required	14
5.6	Transfer Fee	14
6.	TRANSMISSION OF SHARES	14
6.1	Legal Personal Representative Recognized on Death	14
6.2	Rights of Legal Personal Representative	15
7.	PURCHASE OF SHARES	15
7.1	Company Authorized to Purchase Shares	15
7.2	Purchase When Insolvent	15
7.3	Sale and Voting of Purchased Shares	15
8.	BORROWING POWERS	15
9.	ALTERATIONS	16
9.1	Alteration of Authorized Share Structure	16

9.2	Special Rights and Restrictions	17
9.3	Change of Name	17
9.4	Other Alterations	17
10.	MEETINGS OF SHAREHOLDERS	17
10.1	Annual General Meetings	17
10.2	Resolution Instead of Annual General Meeting	17
10.3	Calling of Meetings of Shareholders	17
10.4	Notice for Meetings of Shareholders	18
10.5	Record Date for Notice	18
10.6	Record Date for Voting	18
10.7	Failure to Give Notice and Waiver of Notice	18
10.8	Notice of Special Business at Meetings of Shareholders	18
11.	PROCEEDINGS AT MEETINGS OF SHAREHOLDERS	19
11.1	Special Business	19
11.2	Special Majority	19
11.3	Quorum	20
11.4	One Shareholder May Constitute Quorum	20
11.5	Other Persons May Attend	20
11.6	Requirement of Quorum	20
11.7	Lack of Quorum	20
11.8	Lack of Quorum at Succeeding Meeting	20
11.9	Chair	21
11.10	Selection of Alternate Chair	21
11.11	Adjournments	21
11.12	Notice of Adjourned Meeting	21

11.13	Decisions by Show of Hands or Poll	21
11.14	Declaration of Result	21
11.15	Motion Need Not Be Seconded	22
11.16	Casting Vote	22
11.17	Manner of Taking Poll	22
11.18	Demand for Poll on Adjournment	22
11.19	Chair Must Resolve Dispute	22
11.20	Casting of Votes	22
11.21	Demand for Poll	23
11.22	Demand for Poll Not to Prevent Continuance of Meeting	23
11.23	Retention of Ballots and Proxies	23
12.	VOTES OF SHAREHOLDERS	23
12.1	Number of Votes by Shareholder or by Shares	23
12.2	Votes of Persons in Representative Capacity	23
12.3	Votes by Joint Holders	23
12.4	Legal Personal Representatives as Joint Shareholders	24
12.5	Representative of a Corporate Shareholder	24
12.6	Proxy Provisions Do Not Apply to All Companies	24
12.7	Appointment of Proxy Holders	25
12.8	Alternate Proxy Holders	25
12.9	When Proxy Holder Need Not Be Shareholder	25
12.10	Deposit of Proxy	25
12.11	Validity of Proxy Vote	26
12.12	Form of Proxy	26
12.13	Revocation of Proxy	27

12.14	Revocation of Proxy Must Be Signed	27
12.15	Production of Evidence of Authority to Vote	27
13.	DIRECTORS	27
13.1	First Directors; Number of Directors	27
13.2	Change in Number of Directors	28
13.3	Directors' Acts Valid Despite Vacancy	28
13.4	Qualifications of Directors	28
13.5	Remuneration of Directors	28
13.6	Reimbursement of Expenses of Directors	28
13.7	Special Remuneration for Directors	28
13.8	Gratuity, Pension or Allowance on Retirement of Director	29
14.	ELECTION AND REMOVAL OF DIRECTORS	29
14.1	Election at Annual General Meeting	29
14.2	Consent to be a Director	29
14.3	Failure to Elect or Appoint Directors	29
14.4	Places of Retiring Directors Not Filled	30
14.5	Directors May Fill Casual Vacancies	30
14.6	Remaining Directors Power to Act	30
14.7	Shareholders May Fill Vacancies	30
14.8	Additional Directors	30
14.9	Ceasing to Be a Director	31
14.10	Removal of Director by Shareholders	31
14.11	Removal of Director by Directors	31
15.	ALTERNATE DIRECTORS	31
15.1	Appointment of Alternate Director	31

15.2	Notice of Meetings	32
15.3	Alternate for More Than One Director Attending Meetings	32
15.4	Consent Resolutions	32
15.5	Alternate Director Not an Agent	32
15.6	Revocation of Appointment of Alternate Director	32
15.7	Ceasing to Be an Alternate Director	33
15.8	Remuneration and Expenses of Alternate Director	33
16.	POWERS AND DUTIES OF DIRECTORS	33
16.1	Powers of Management	33
16.2	Appointment of Attorney of Company	33
17.	DISCLOSURE OF INTEREST OF DIRECTORS	34
17.1	Obligation to Account for Profits	34
17.2	Restrictions on Voting by Reason of Interest	34
17.3	Interested Director Counted in Quorum	34
17.4	Disclosure of Conflict of Interest or Property	34
17.5	Director Holding Other Office in the Company	34
17.6	No Disqualification	34
17.7	Professional Services by Director or Officer	35
17.8	Director or Officer in Other Corporations	35
18.	PROCEEDINGS OF DIRECTORS	35
18.1	Meetings of Directors	35
18.2	Voting at Meetings	35
18.3	Chair of Meetings	35
18.4	Meetings by Telephone or Other Communications Medium	36
18.5	Calling of Meetings	36

18.6	Notice of Meetings	36
18.7	When Notice Not Required	36
18.8	Meeting Valid Despite Failure to Give Notice	36
18.9	Waiver of Notice of Meetings	37
18.10	Quorum	37
18.11	Validity of Acts Where Appointment Defective	37
18.12	Consent Resolutions in Writing	37
19.	EXECUTIVE AND OTHER COMMITTEES	38
19.1	Appointment and Powers of Executive Committee	38
19.2	Appointment and Powers of Other Committees	38
19.3	Obligations of Committees	38
19.4	Powers of Board	39
19.5	Committee Meetings	39
20.	OFFICERS	39
20.1	Directors May Appoint Officers	39
20.2	Functions, Duties and Powers of Officers	39
20.3	Qualifications	40
20.4	Remuneration and Terms of Appointment	40
21.	INDEMNIFICATION	40
21.1	Definitions	40
21.2	Mandatory Indemnification of Directors and Former Directors	41
21.3	Indemnification of Other Persons	41
21.4	Non-Compliance with Business Corporations Act	41
21.5	Company May Purchase Insurance	41
22.	DIVIDENDS	42

22.1	Payment of Dividends Subject to Special Rights	42
22.2	Declaration of Dividends	42
22.3	No Notice Required	42
22.4	Record Date	42
22.5	Manner of Paying Dividend	42
22.6	Settlement of Difficulties	42
22.7	When Dividend Payable	42
22.8	Dividends to be Paid in Accordance with Number of Shares	42
22.9	Receipt by Joint Shareholders	43
22.10	Dividend Bears No Interest	43
22.11	Fractional Dividends	43
22.12	Payment of Dividends	43
23.	DOCUMENTS, RECORDS AND REPORTS	43
23.1	Recording of Financial Affairs	43
23.2	Inspection of Accounting Records	43
24.	NOTICES	43
24.1	Method of Giving Notice	43
24.2	Deemed Receipt of Mailing	44
24.3	Certificate of Sending	44
24.4	Notice to Joint Shareholders	45
24.5	Notice to Trustees	45
25.	SEAL	45
25.1	Who May Attest Seal	45
25.2	Sealing Copies	45
25.3	Mechanical Reproduction of Seal	46

26.	PROHIBITIONS	46
26.1	Definitions	46
26.2	Application	47
26.3	Consent Required for Transfer of Shares or Designated Securities	47
27.	SPECIAL RIGHTS AND RESTRICTIONS ATTACHING TO THE COMMON SHARES	47
27.1	Voting Rights	47
27.2	Dividend Rights on Common Shares	47
27.3	Dissolution	47

KWESST MICRO SYSTEMS INC.
(formerly FOREMOST VENTURES CORP.)
(the “Company”)

ARTICLES OF AMENDMENT

1. INTERPRETATION

1.1 Definitions

In these Articles, unless the context otherwise requires:

- (a) “board of directors”, “directors” and “board” mean the directors or sole director of the Company for the time being;
- (b) “*Business Corporations Act*” means the *Business Corporations Act* (British Columbia) from time to time in force and all amendments thereto and includes all regulations and amendments thereto made pursuant to that Act;
- (c) “legal personal representative” means the personal or other legal representative of the shareholder;
- (d) “registered address” of a shareholder means the shareholder’s address as recorded in the central securities register;
- (e) “seal” means the seal of the Company, if any.

1.2 *Business Corporations Act and Interpretation Act Definitions Applicable*

The definitions in the *Business Corporations Act* and the definitions and rules of construction in the *Interpretation Act*, with the necessary changes, so far as applicable, and unless the context requires otherwise, apply to these Articles as if they were an enactment. If there is a conflict between a definition in the *Business Corporations Act* and a definition or rule in the *Interpretation Act* relating to a term used in these Articles, the definition in the *Business Corporations Act* will prevail in relation to the use of the term in these Articles. If there is a conflict between these Articles and the *Business Corporations Act*, the *Business Corporations Act* will prevail.

2. SHARES AND SHARE CERTIFICATES

2.1 Authorized Share Structure

The authorized share structure of the Company consists of shares of the class or classes and series, if any, described in the Notice of Articles of the Company.

2.2 Form of Share Certificate

Each share certificate issued by the Company must comply with, and be signed as required by, the *Business Corporations Act*.

2.3 Shareholder Entitled to Certificate or Acknowledgment

Each shareholder is entitled, without charge, to (a) one share certificate representing the shares of each class or series of shares registered in the shareholder's name or (b) a non-transferable written acknowledgment of the shareholder's right to obtain such a share certificate, provided that in respect of a share held jointly by several persons, the Company is not bound to issue more than one share certificate and delivery of a share certificate for a share to one of several joint shareholders or to one of the shareholders' duly authorized agents will be sufficient delivery to all.

2.4 Delivery by Mail

Any share certificate or non-transferable written acknowledgment of a shareholder's right to obtain a share certificate may be sent to the shareholder by mail at the shareholder's registered address and neither the Company nor any director, officer or agent of the Company is liable for any loss to the shareholder because the share certificate or acknowledgment is lost in the mail or stolen.

2.5 Replacement of Worn Out or Defaced Certificate or Acknowledgement

If the directors are satisfied that a share certificate or a non-transferable written acknowledgment of the shareholder's right to obtain a share certificate is worn out or defaced, they must, on production to them of the share certificate or acknowledgment, as the case may be, and on such other terms, if any, as they think fit:

- (a) order the share certificate or acknowledgment, as the case may be, to be cancelled; and
- (b) issue a replacement share certificate or acknowledgment, as the case may be.

2.6 Replacement of Lost, Stolen or Destroyed Certificate or Acknowledgment

If a share certificate or a non-transferable written acknowledgment of a shareholder's right to obtain a share certificate is lost, stolen or destroyed, a replacement share certificate or acknowledgment, as the case may be, must be issued to the person entitled to that share certificate or acknowledgment, as the case may be, if the directors receive:

- (a) proof satisfactory to them that the share certificate or acknowledgment is lost, stolen or destroyed; and
- (b) any indemnity the directors consider adequate.

2.7 Splitting Share Certificates

If a shareholder surrenders a share certificate to the Company with a written request that the Company issue in the shareholder's name two or more share certificates, each representing a specified number of shares and in the aggregate representing the same number of shares as the share certificate so surrendered, the Company must cancel the surrendered share certificate and issue replacement share certificates in accordance with that request.

2.8 Certificate Fee

There must be paid to the Company, in relation to the issue of any share certificate under Articles 2.5, 2.6 or 2.7, the amount, if any and which must not exceed the amount prescribed under the *Business Corporations Act*, determined by the directors.

2.9 Recognition of Trusts

Except as required by law or statute or these Articles, no person will be recognized by the Company, as holding any share upon any trust, and the Company is not bound by or compelled in any way to recognize (even when having notice thereof) any equitable, contingent, future or partial interest in any share or fraction of a share or (except as by law or statute or these Articles provided or as ordered by a court of competent jurisdiction) any other rights in respect of any share except an absolute right to the entirety thereof in the shareholder.

3. ISSUE OF SHARES

3.1 Directors Authorized

Subject to the *Business Corporations Act* and the rights of the holders of issued shares of the Company, the Company may issue, allot, sell or otherwise dispose of the unissued shares, and issued shares held by the Company, at the times, to the persons, including directors, in the manner, on the terms and conditions and for the issue prices (including any premium at which shares with par value may be issued) that the directors may determine. The issue price for a share with par value must be equal to or greater than the par value of the share.

3.2 Commissions and Discounts

The Company may at any time pay a reasonable commission or allow a reasonable discount to any person in consideration of that person purchasing or agreeing to purchase shares of the Company from the Company or any other person or procuring or agreeing to procure purchasers for shares of the Company.

3.3 Brokerage

The Company may pay such brokerage fee or other consideration as may be lawful for or in connection with the sale or placement of its securities.

3.4 Conditions of Issue

Except as provided for by the *Business Corporations Act*, no share may be issued until it is fully paid. A share is fully paid when:

- (a) consideration is provided to the Company for the issue of the share by one or more of the following:
 - (i) past services performed for the Company;
-

- (ii) property;
- (iii) money; and

(b) the value of the consideration received by the Company equals or exceeds the issue price set for the share under Article 3.1.

3.5 Share Purchase Warrants and Rights

Subject to the *Business Corporations Act*, the Company may issue share purchase warrants, options and rights upon such terms and conditions as the directors determine, which share purchase warrants, options and rights may be issued alone or in conjunction with debentures, debenture stock, bonds, shares or any other securities issued or created by the Company from time to time.

4. SHARE REGISTERS

4.1 Central Securities Register

As required by and subject to the *Business Corporations Act*, the Company must maintain in British Columbia a central securities register. The directors may, subject to the *Business Corporations Act*, appoint an agent to maintain the central securities register. The directors may also appoint one or more agents, including the agent which keeps the central securities register, as transfer agent for its shares or any class or series of its shares, as the case may be, and the same or another agent as registrar for its shares or such class or series of its shares, as the case may be. The directors may terminate such appointment of any agent at any time and may appoint another agent in its place.

4.2 Closing Register

The Company must not at any time close its central securities register.

5. SHARE TRANSFERS

5.1 Registering Transfers

A transfer of a share of the Company must not be registered unless:

- (a) a duly signed instrument of transfer in respect of the share has been received by the Company;
 - (b) if a share certificate has been issued by the Company in respect of the share to be transferred, that share certificate has been surrendered to the Company; and
 - (c) if a non-transferable written acknowledgment of the shareholder's right to obtain a share certificate has been issued by the Company in respect of the share to be transferred, that acknowledgment has been surrendered to the Company.
-

5.2 Form of Instrument of Transfer

The instrument of transfer in respect of any shares of the Company must be either in the form, if any, on the back of the Company's share certificates or in any other form that may be approved by the directors from time to time.

5.3 Transferor Remains Shareholder

Except to the extent that the *Business Corporations Act* otherwise provides, the transferor of shares is deemed to remain the holder of the shares until the name of the transferee is entered in a securities register of the Company in respect of the transfer.

5.4 Signing of Instrument of Transfer

If a shareholder, or his or her duly authorized attorney, signs an instrument of transfer in respect of shares registered in the name of the shareholder, the signed instrument of transfer constitutes a complete and sufficient authority to the Company and its directors, officers and agents to register the number of shares specified in the instrument of transfer or specified in any other manner, or, if no number is specified, all the shares represented by the share certificates or set out in the written acknowledgements deposited with the instrument of transfer:

- (a) in the name of the person named as transferee in that instrument of transfer; or
- (b) if no person is named as transferee in that instrument of transfer, in the name of the person on whose behalf the instrument is deposited for the purpose of having the transfer registered.

5.5 Enquiry as to Title Not Required

Neither the Company nor any director, officer or agent of the Company is bound to inquire into the title of the person named in the instrument of transfer as transferee or, if no person is named as transferee in the instrument of transfer, of the person on whose behalf the instrument is deposited for the purpose of having the transfer registered or is liable for any claim related to registering the transfer by the shareholder or by any intermediate owner or holder of the shares, of any interest in the shares, of any share certificate representing such shares or of any written acknowledgement of a right to obtain a share certificate for such shares.

5.6 Transfer Fee

There must be paid to the Company, in relation to the registration of any transfer, the amount, if any, determined by the directors.

6. TRANSMISSION OF SHARES

6.1 Legal Personal Representative Recognized on Death

In case of the death of a shareholder, the legal personal representative, or if the shareholder was a joint holder, the surviving joint holder, will be the only person recognized by the Company as

having any title to the shareholder's interest in the shares. Before recognizing a person as a legal personal representative, the directors may require proof of appointment by a court of competent jurisdiction, a grant of letters probate, letters of administration or such other evidence or documents as the directors consider appropriate.

6.2 Rights of Legal Personal Representative

The legal personal representative has the same rights, privileges and obligations that attach to the shares held by the shareholder, including the right to transfer the shares in accordance with these Articles, provided the documents required by the *Business Corporations Act* and the directors have been deposited with the Company.

7. PURCHASE OF SHARES

7.1 Company Authorized to Purchase Shares

Subject to Article 7.2, the special rights and restrictions attached to the shares of any class or series and the *Business Corporations Act*, the Company may, if authorized by the directors, purchase or otherwise acquire any of its shares at the price and upon the terms specified in such resolution .

7.2 Purchase When Insolvent

The Company must not make a payment or provide any other consideration to purchase or otherwise acquire any of its shares if there are reasonable grounds for believing that:

- (a) the Company is insolvent; or
- (b) making the payment or providing the consideration would render the Company insolvent.

7.3 Sale and Voting of Purchased Shares

If the Company retains a share redeemed, purchased or otherwise acquired by it, the Company may sell, gift or otherwise dispose of the share, but, while such share is held by the Company, it:

- (a) is not entitled to vote the share at a meeting of its shareholders;
- (b) must not pay a dividend in respect of the share; and
- (c) must not make any other distribution in respect of the share.

8. BORROWING POWERS

The Company, if authorized by the directors, may:

- (a) borrow money in the manner and amount, on the security, from the sources and on the terms and conditions that they consider appropriate;
-

- (b) issue bonds, debentures and other debt obligations either outright or as security for any liability or obligation of the Company or any other person and at such discounts or premiums and on such other terms as they consider appropriate;
- (c) guarantee the repayment of money by any other person or the performance of any obligation of any other person; and
- (d) mortgage, charge, whether by way of specific or floating charge, grant a security interest in, or give other security on, the whole or any part of the present and future assets and undertaking of the Company.

9. ALTERATIONS

9.1 Alteration of Authorized Share Structure

- (a) Subject to Article 9.2 and the *Business Corporations Act*, the Company may by directors' resolution:
 - (i) subdivide or consolidate all or any of its unissued, or fully paid issued, shares;
 - (ii) if the Company is authorized to issue shares of a class of shares with par value:
 - (a) decrease the par value of those shares; or
 - (b) if none of the shares of that class of shares are allotted or issued, increase the par value of those shares;
 - (iii) change all or any of its unissued, or fully paid issued, shares with par value into shares without par value or any of its unissued shares without par value into shares with par value;
 - (iv) alter the identifying name of any of its shares; or
 - (v) otherwise alter its shares or authorized share structure when required or permitted to do so by the *Business Corporations Act*.
 - (b) Subject to Article 9.2 and the *Business Corporations Act*, the Company may by directors' resolution:
 - (i) create one or more classes or series of shares or, if none of the shares of a class or series of shares are allotted or issued, eliminate that class or series of shares;
 - (ii) increase, reduce or eliminate the maximum number of shares that the Company is authorized to issue out of any class or series of shares or establish a maximum
-

number of shares that the Company is authorized to issue out of any class or series of shares for which no maximum is established.

9.2 Special Rights and Restrictions

Subject to the *Business Corporations Act*, the Company may by ordinary resolution:

- (a) create special rights or restrictions for, and attach those special rights or restrictions to, the shares of any class or series of shares, whether or not any or all of those shares have been issued; or
- (b) vary or delete any special rights or restrictions attached to the shares of any class or series of shares, whether or not any or all of those shares have been issued.

9.3 Change of Name

The Company may by directors' resolution authorize an alteration of its Notice of Articles in order to change its name or adopt or change any translation of that name.

9.4 Other Alterations

If the *Business Corporations Act* does not specify the type of resolution and these Articles do not specify another type of resolution, the Company may by ordinary resolution alter these Articles.

10. MEETINGS OF SHAREHOLDERS

10.1 Annual General Meetings

Unless an annual general meeting is deferred or waived in accordance with the *Business Corporations Act*, the Company must hold its first annual general meeting within 18 months after the date on which it was incorporated or otherwise recognized, and after that must hold an annual general meeting at least once in each calendar year and not more than 15 months after the last annual reference date at such time and place as may be determined by the directors.

10.2 Resolution Instead of Annual General Meeting

If all the shareholders who are entitled to vote at an annual general meeting consent by a unanimous resolution under the *Business Corporations Act* to all of the business that is required to be transacted at that annual general meeting, the annual general meeting is deemed to have been held on the date of the unanimous resolution. The shareholders must, in any unanimous resolution passed under this Article 10.2, select as the Company's annual reference date a date that would be appropriate for the holding of the applicable annual general meeting.

10.3 Calling of Meetings of Shareholders

The directors may, whenever they think fit, call a meeting of shareholders.

10.4 Notice for Meetings of Shareholders

The Company must send notice of the date, time and location of any meeting of shareholders, in the manner provided in these Articles, or in such other manner, if any, as may be prescribed by ordinary resolution (whether previous notice of the resolution has been given or not), to each shareholder entitled to attend the meeting, to each director and to the auditor of the Company, unless these Articles otherwise provide, at least the following number of days before the meeting:

- (a) if and for so long as the Company is a public company, 21 days ;
- (b) otherwise, 10 days.

10.5 Record Date for Notice

The directors may set a date as the record date for the purpose of determining shareholders entitled to notice of any meeting of shareholders. The record date must not precede the date on which the meeting is to be held by more than two months or, in the case of a general meeting requisitioned by shareholders under the *Business Corporations Act*, by more than four months. The record date must not precede the date on which the meeting is held by fewer than:

- (a) if and for so long as the Company is a public company, 21 days;
- (b) otherwise, 10 days.

If no record date is set, the record date is 5 p.m. on the day immediately preceding the first date on which the notice is sent or, if no notice is sent, the beginning of the meeting.

10.6 Record Date for Voting

The directors may set a date as the record date for the purpose of determining shareholders entitled to vote at any meeting of shareholders. The record date must not precede the date on which the meeting is to be held by more than two months or, in the case of a general meeting requisitioned by shareholders under the *Business Corporations Act*, by more than four months. If no record date is set, the record date is 5 p.m. on the day immediately preceding the first date on which the notice is sent or, if no notice is sent, the beginning of the meeting.

10.7 Failure to Give Notice and Waiver of Notice

The accidental omission to send notice of any meeting to, or the non-receipt of any notice by, any of the persons entitled to notice does not invalidate any proceedings at that meeting. Any person entitled to notice of a meeting of shareholders may, in writing or otherwise, waive or reduce the period of notice of such meeting.

10.8 Notice of Special Business at Meetings of Shareholders

If a meeting of shareholders is to consider special business within the meaning of Article 11.1, the notice of meeting must:

- (a) state the general nature of the special business; and
-

- (b) if the special business includes considering, approving, ratifying, adopting or authorizing any document or the signing of or giving of effect to any document, have attached to it a copy of the document or state that a copy of the document will be available for inspection by shareholders:
 - (i) at the Company's records office, or at such other reasonably accessible location in British Columbia as is specified in the notice; and
 - (ii) during statutory business hours on anyone or more specified days before the day set for the holding of the meeting.

11. PROCEEDINGS AT MEETINGS OF SHAREHOLDERS

11.1 Special Business

At a meeting of shareholders, the following business is special business:

- (a) at a meeting of shareholders that is not an annual general meeting, all business is special business except business relating to the conduct of or voting at the meeting;
- (b) at an annual general meeting, all business is special business except for the following:
 - (i) business relating to the conduct of or voting at the meeting;
 - (ii) consideration of any financial statements of the Company presented to the meeting;
 - (iii) consideration of any reports of the directors or auditor;
 - (iv) the setting or changing of the number of directors;
 - (v) the election or appointment of directors;
 - (vi) the appointment of an auditor;
 - (vii) the setting of the remuneration of an auditor;
 - (viii) business arising out of a report of the directors not requiring the passing of a special resolution or an exceptional resolution;
 - (ix) any other business which, under these Articles or the *Business Corporations Act*, may be transacted at a meeting of shareholders without prior notice of the business being given to the shareholders.

11.2 Special Majority

The majority of votes required for the Company to pass a special resolution at a meeting of shareholders is two-thirds of the votes cast on the resolution.

11.3 Quorum

Subject to the special rights and restrictions attached to the shares of any class or series of shares, the quorum for the transaction of business at a meeting of shareholders is two persons who are, or who represent by proxy, shareholders who, in the aggregate, hold at least 5% of the issued shares entitled to be voted at the meeting.

11.4 One Shareholder May Constitute Quorum

If there is one shareholder entitled to vote at a meeting of shareholders:

- (a) the quorum is one person who is, or who represents by proxy, that shareholder, and
- (b) that shareholder, present in person or by proxy, may constitute the meeting.

11.5 Other Persons May Attend

The directors, the president (if any), the secretary (if any), the assistant secretary (if any), any lawyer for the Company, the auditor of the Company and any other persons invited by the directors are entitled to attend any meeting of shareholders, but if any of those persons does attend a meeting of shareholders, that person is not to be counted in the quorum and is not entitled to vote at the meeting unless that person is a shareholder or proxy holder entitled to vote at the meeting.

11.6 Requirement of Quorum

No business, other than the election of a chair of the meeting and the adjournment of the meeting, may be transacted at any meeting of shareholders unless a quorum of shareholders entitled to vote is present at the commencement of the meeting, but such quorum need not be present throughout the meeting.

11.7 Lack of Quorum

If, within one-half hour from the time set for the holding of a meeting of shareholders, a quorum is not present:

- (a) in the case of a general meeting requisitioned by shareholders, the meeting is dissolved, and
- (b) in the case of any other meeting of shareholders, the meeting stands adjourned to the same day in the next week at the same time and place.

11.8 Lack of Quorum at Succeeding Meeting

If, at the meeting to which the meeting referred to in Article 11.7(b) was adjourned, a quorum is not present within one-half hour from the time set for the holding of the meeting, the person or persons present and being, or representing by proxy, one or more shareholders entitled to attend and vote at the meeting constitute a quorum.

11.9 Chair

The following individual is entitled to preside as chair at a meeting of shareholders:

- (a) the chair of the board, if any; or
- (b) if the chair of the board is absent or unwilling to act as chair of the meeting, the president, if any.

11.10 Selection of Alternate Chair

If, at any meeting of shareholders, there is no chair of the board or president present within 15 minutes after the time set for holding the meeting, or if the chair of the board and the president are unwilling to act as chair of the meeting, or if the chair of the board and the president have advised the secretary, if any, or any director present at the meeting, that they will not be present at the meeting, the directors present must choose one of their number to be chair of the meeting or if all of the directors present decline to take the chair or fail to so choose or if no director is present, the shareholders entitled to vote at the meeting who are present in person or by proxy may choose any person present at the meeting to chair the meeting.

11.11 Adjournments

The chair of a meeting of shareholders may, and if so directed by the meeting must, adjourn the meeting from time to time and from place to place, but no business may be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

11.12 Notice of Adjourned Meeting

It is not necessary to give any notice of an adjourned meeting or of the business to be transacted at an adjourned meeting of shareholders except that, when a meeting is adjourned for 30 days or more, notice of the adjourned meeting must be given as in the case of the original meeting.

11.13 Decisions by Show of Hands or Poll

Subject to the *Business Corporations Act*, every motion put to a vote at a meeting of shareholders will be decided on a show of hands unless a poll, before or on the declaration of the result of the vote by show of hands, is directed by the chair or demanded by at least one shareholder entitled to vote who is present in person or by proxy.

11.14 Declaration of Result

The chair of a meeting of shareholders must declare to the meeting the decision on every question in accordance with the result of the show of hands or the poll, as the case may be, and that decision must be entered in the minutes of the meeting. A declaration of the chair that a resolution is carried by the necessary majority or is defeated is, unless a poll is directed by the

chair or demanded under Article 11.13, conclusive evidence without proof of the number or proportion of the votes recorded in favour of or against the resolution.

11.15 Motion Need Not Be Seconded

No motion proposed at a meeting of shareholders need be seconded unless the chair of the meeting rules otherwise, and the chair of any meeting of shareholders is entitled to propose or second a motion.

11.16 Casting Vote

In case of an equality of votes, the chair of a meeting of shareholders does not, either on a show of hands or on a poll, have a second or casting vote in addition to the vote or votes to which the chair may be entitled as a shareholder.

11.17 Manner of Taking Poll

Subject to Article 11.18, if a poll is duly demanded at a meeting of shareholders:

- (a) the poll must be taken:
 - (i) at the meeting, or within seven days after the date of the meeting, as the chair of the meeting directs; and
 - (ii) in the manner, at the time and at the place that the chair of the meeting directs;
- (b) the result of the poll is deemed to be the decision of the meeting at which the poll is demanded; and
- (c) the demand for the poll may be withdrawn by the person who demanded it.

11.18 Demand for Poll on Adjournment

A poll demanded at a meeting of shareholders on a question of adjournment must be taken immediately at the meeting.

11.19 Chair Must Resolve Dispute

In the case of any dispute as to the admission or rejection of a vote given on a poll, the chair of the meeting must determine the dispute, and his or her determination made in good faith is final and conclusive.

11.20 Casting of Votes

On a poll, a shareholder entitled to more than one vote need not cast all the votes in the same way.

11.21 Demand for Poll

No poll may be demanded in respect of the vote by which a chair of a meeting of shareholders is elected.

11.22 Demand for Poll Not to Prevent Continuance of Meeting

The demand for a poll at a meeting of shareholders does not, unless the chair of the meeting so rules, prevent the continuation of a meeting for the transaction of any business other than the question on which a poll has been demanded.

11.23 Retention of Ballots and Proxies

The Company must, for at least three months after a meeting of shareholders, keep each ballot cast on a poll and each proxy voted at the meeting, and, during that period, make them available for inspection during normal business hours by any shareholder or proxy holder entitled to vote at the meeting. At the end of such three month period, the Company may destroy such ballots and proxies.

12. VOTES OF SHAREHOLDERS

12.1 Number of Votes by Shareholder or by Shares

Subject to any special rights or restrictions attached to any shares and to the restrictions imposed on joint shareholders under Article 12.3:

- (a) on a vote by show of hands, every person present who is a shareholder or proxy holder and entitled to vote on the matter has one vote; and
- (b) on a poll, every shareholder entitled to vote on the matter has one vote in respect of each share entitled to be voted on the matter and held by that shareholder and may exercise that vote either in person or by proxy.

12.2 Votes of Persons in Representative Capacity

A person who is not a shareholder may vote at a meeting of shareholders, whether on a show of hands or on a poll, and may appoint a proxy holder to act at the meeting, if, before doing so, the person satisfies the chair of the meeting, or the directors, that the person is a legal personal representative or a trustee in bankruptcy for a shareholder who is entitled to vote at the meeting.

12.3 Votes by Joint Holders

If there are joint shareholders registered in respect of any share:

- (a) any one of the joint shareholders may vote at any meeting, either personally or by proxy, in respect of the share as if that joint shareholder were solely entitled to it; or
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- (b) if more than one of the joint shareholders is present at any meeting, personally or by proxy, and more than one of them votes in respect of that share, then only the vote of the joint shareholder present whose name stands first on the central securities register in respect of the share will be counted.

12.4 Legal Personal Representatives as Joint Shareholders

Two or more legal personal representatives of a shareholder in whose sole name any shares is registered are, for the purposes of Article 12.3, deemed to be joint shareholders.

12.5 Representative of a Corporate Shareholder

If a corporation, that is not a subsidiary of the Company, is a shareholder, that corporation may appoint a person to act as its representative at any meeting of shareholders of the Company, and:

- (a) for that purpose, the instrument appointing a representative must:
 - (i) be received at the registered office of the Company or at any other place specified in the notice calling the meeting for the receipt of proxies at least the number of business days specified in the notice for the receipt of proxies, or if no number of days is specified, two business days before the day set for the holding of the meeting; or
 - (ii) be provided, at the meeting, to the chair of the meeting or to a person designated by the chair of the meeting;
- (b) if a representative is appointed under this Article 12.5:
 - (i) the representative is entitled to exercise in respect of and at that meeting the same rights on behalf of the corporation that the representative represents as that corporation could exercise if it were a shareholder who is an individual, including, without limitation, the right to appoint a proxy holder; and
 - (ii) the representative, if present at the meeting, is to be counted for the purpose of forming a quorum and is deemed to be a shareholder present in person at the meeting.

Evidence of the appointment of any such representative may be sent to the Company by written instrument, fax or any other method of transmitting legibly recorded messages.

12.6 Proxy Provisions Do Not Apply to All Companies

If and for so long as the Company is a public company or a pre-existing reporting company which has the Statutory Reporting Company Provisions as part of its Articles or to which the Statutory Reporting Company Provisions apply, Articles 12.7 to 12.15 apply only insofar as they are not inconsistent with any securities legislation in any province or territory of Canada or in the

federal jurisdiction of the United States or in any states of the United States that is applicable to the Company and insofar as they are not inconsistent with the regulations and rules made and promulgated under that legislation and all administrative policy statements, blanket orders and rulings, notices and other administrative directions issued by securities commissions or similar authorities appointed under that legislation.

12.7 Appointment of Proxy Holders

Every shareholder of the Company, including a corporation that is a shareholder but not a subsidiary of the Company, entitled to vote at a meeting of shareholders of the Company may, by proxy, appoint one or more (but not more than five) proxy holders to attend and act at the meeting in the manner, to the extent and with the powers conferred by the proxy.

12.8 Alternate Proxy Holders

A shareholder may appoint one or more alternate proxy holders to act in the place of an absent proxy holder.

12.9 When Proxy Holder Need Not Be Shareholder

A person must not be appointed as a proxy holder unless the person is a shareholder, although a person who is not a shareholder may be appointed as a proxy holder if:

- (a) the person appointing the proxy holder is a corporation or a representative of a corporation appointed under Article 12.5;
- (b) the Company has at the time of the meeting for which the proxy holder is to be appointed only one shareholder entitled to vote at the meeting; or
- (c) the shareholders present in person or by proxy at and entitled to vote at the meeting for which the Proxy holder is to be appointed, by a resolution on which the proxy holder is not entitled to vote but in respect of which the proxy holder is to be counted in the quorum, permit the proxy holder to attend and vote at the meeting.

12.10 Deposit of Proxy

A proxy for a meeting of shareholders must:

- (a) be received at the registered office of the Company or at any other place specified, in the notice calling the meeting, for the receipt of proxies, at least the number of business days specified in the notice, or if no number of days is specified, two business days before the day set for the holding of the meeting; or
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(b) unless the notice provides otherwise, be provided, at the meeting, to the chair of the meeting or to a person designated by the chair of the meeting. A proxy may be sent to the Company by written instrument, fax or any other method of transmitting legibly recorded messages.

12.11 Validity of Proxy Vote

A vote given in accordance with the terms of a proxy is valid notwithstanding the death or incapacity of the shareholder giving the proxy and despite the revocation of the proxy or the revocation of the authority under which the proxy is given, unless notice in writing of that death, incapacity or revocation is received:

- (a) at the registered office of the Company, at any time up to and including the last business day before the day set for the holding of the meeting at which the proxy is to be used; or
- (b) by the chair of the meeting, before the vote is taken.

12.12 Form of Proxy

A proxy, whether for a specified meeting or otherwise, must be either in the following form or in any other form approved by the directors or the chair of the meeting:

[name of company]

(the "Company")

The undersigned, being a shareholder of the Company, hereby appoints *[name]* or, failing that person, *[name]*, as proxy holder for the undersigned to attend, act and vote for and on behalf of the undersigned at the meeting of shareholders of the Company to be held on *[month, day, year]* and at any adjournment of that meeting.

Number of shares in respect of which this proxy is given (if no number is specified, then this proxy is given in respect of all shares registered in the name of the shareholder):

Signed *[month, day, year]*

[Signature of shareholder]

[Name of shareholder - printed]

12.13 Revocation of Proxy

Subject to Article 12.14, every proxy may be revoked by an instrument in writing that is:

- (a) received at the registered office of the Company at any time up to and including the last business day before the day set for the holding of the meeting at which the proxy is to be used; or
- (b) provided, at the meeting, to the chair of the meeting.

12.14 Revocation of Proxy Must Be Signed

An instrument referred to in Article 12.13 must be signed as follows:

- (a) if the shareholder for whom the proxy holder is appointed is an individual, the instrument must be signed by the shareholder or his or her legal personal representative or trustee in bankruptcy;
- (b) if the shareholder for whom the proxy holder is appointed is a corporation, the instrument must be signed by the corporation or by a representative appointed for the corporation under Article 12.5.

12.15 Production of Evidence of Authority to Vote

The chair of any meeting of shareholders may, but need not, inquire into the authority of any person to vote at the meeting and may, but need not, demand from that person production of evidence as to the existence of the authority to vote.

13. DIRECTORS

13.1 First Directors; Number of Directors

The first directors are the persons designated as directors of the Company in the Notice of Articles that applies to the Company when it is recognized under the *Business Corporations Act*. The number of directors, excluding additional directors appointed under Article 14.8, is set at:

- (a) subject to paragraphs (b) and (c), the number of directors that is equal to the number of the Company's first directors;
 - (b) if the Company is a public company, the greater of three and the most recently set of:
 - (i) the number of directors set by ordinary resolution (whether or not previous notice of the resolution was given); and
 - (ii) the number of directors set under Article 14.4;
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- (c) if the Company is not a public company, the most recently set of:
 - (i) the number of directors set by ordinary resolution (whether or not previous notice of the resolution was given); and
 - (ii) the number of directors set under Article 14.4.

13.2 Change in Number of Directors

If the number of directors is set under Articles 13.1 (b)(i) or 13.1 (c)(i):

- (a) the shareholders may elect or appoint the directors needed to fill any vacancies in the board of directors up to that number;
- (b) if the shareholders do not elect or appoint the directors needed to fill any vacancies in the board of directors up to that number contemporaneously with the setting of that number, then the directors may appoint, or the shareholders may elect or appoint, directors to fill those vacancies.

13.3 Directors' Acts Valid Despite Vacancy

An act or proceeding of the directors is not invalid merely because fewer than the number of directors set or otherwise required under these Articles is in office.

13.4 Qualifications of Directors

A director is not required to hold a share in the capital of the Company as qualification for his or her office but must be qualified as required by the *Business Corporations Act* to become, act or continue to act as a director.

13.5 Remuneration of Directors

The directors are entitled to the remuneration for acting as directors, if any, as the directors may from time to time determine. If the directors so decide, the remuneration of the directors, if any, will be determined by the shareholders. That remuneration may be in addition to any salary or other remuneration paid to any officer or employee of the Company as such, who is also a director.

13.6 Reimbursement of Expenses of Directors

The Company must reimburse each director for the reasonable expenses that he or she may incur in and about the business of the Company.

13.7 Special Remuneration for Directors

If any director performs any professional or other services for the Company that in the opinion of the directors are outside the ordinary duties of a director, or, if any director is otherwise specially occupied in or about the Company's business, he or she may be paid remuneration fixed by the

directors, or, at the option of that director, fixed by ordinary resolution, and such remuneration may be either in addition to, or in substitution for, any other remuneration that he or she may be entitled to receive.

13.8 Gratuity, Pension or Allowance on Retirement of Director

Unless otherwise determined by ordinary resolution, the directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any director who has held any salaried office or place of profit with the Company or to his or her spouse or dependents and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.

14. ELECTION AND REMOVAL OF DIRECTORS

14.1 Election at Annual General Meeting

At every annual general meeting and in every unanimous resolution contemplated by Article 10.2:

- (a) the shareholders entitled to vote at the annual general meeting for the election of directors must elect, or in the unanimous resolution appoint, a board of directors consisting of the number of directors for the time being set under these Articles; and
- (b) all the directors cease to hold office immediately before the election or appointment of directors under paragraph (a), but are eligible for re-election or reappointment.

14.2 Consent to be a Director

No election, appointment or designation of an individual as a director is valid unless:

- (a) that individual consents to be a director in the manner provided for in the *Business Corporations Act*;
- (b) that individual is elected or appointed at a meeting at which the individual is present and the individual does not refuse, at the meeting, to be a director; or
- (c) with respect to first directors, the designation is otherwise valid under the *Business Corporations Act*.

14.3 Failure to Elect or Appoint Directors

If:

- (a) the Company fails to hold an annual general meeting, and all the shareholders who are entitled to vote at an annual general meeting fail to pass the unanimous resolution contemplated by Article 10.2, on or before the date by which the
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annual general meeting is required to be held under the *Business Corporations Act*; or

- (b) the shareholders fail, at the annual general meeting or in the unanimous resolution contemplated by Article 10.2, to elect or appoint any directors;

then each director then in office continues to hold office until the earlier of:

- (c) the date on which his or her successor is elected or appointed; and
- (d) the date on which he or she otherwise ceases to hold office under the *Business Corporations Act* or these Articles.

14.4 Places of Retiring Directors Not Filled

If, at any meeting of shareholders at which there should be an election of directors, the places of any of the retiring directors are not filled by that election, those retiring directors who are not reelected and who are asked by the newly elected directors to continue in office will, if willing to do so, continue in office to complete the number of directors for the time being set pursuant to these Articles until further new directors are elected at a meeting of shareholders convened for that purpose. If any such election or continuance of directors does not result in the election or continuance of the number of directors for the time being set pursuant to these Articles, the number of directors of the Company is deemed to be set at the number of directors actually elected or continued in office.

14.5 Directors May Fill Casual Vacancies

Any casual vacancy occurring in the board of directors may be filled by the directors.

14.6 Remaining Directors Power to Act

The directors may act notwithstanding any vacancy in the board of directors, but if the Company has fewer directors in office than the number set pursuant to these Articles as the quorum of directors, the directors may only act for the purpose of appointing directors up to that number or of summoning a meeting of shareholders for the purpose of filling any vacancies on the board of directors or, subject to the *Business Corporations Act*, for any other purpose.

14.7 Shareholders May Fill Vacancies

If the Company has no directors or fewer directors in office than the number set pursuant to these Articles as the quorum of directors, the shareholders may elect or appoint directors to fill any vacancies on the board of directors.

14.8 Additional Directors

Notwithstanding Articles 13.1 and 13.2, between annual general meetings or unanimous resolutions contemplated by Article 10.2, the directors may appoint one or more additional

directors, but the number of additional directors appointed under this Article 14.8 must not at any time exceed:

- (a) one-third of the number of first directors, if, at the time of the appointments, one or more of the first directors have not yet completed their first term of office; or
- (b) in any other case, one-third of the number of the current directors who were elected or appointed as directors other than under this Article 14.8.

Any director so appointed ceases to hold office immediately before the next election or appointment of directors under Article 14.1(a), but is eligible for re-election or re-appointment.

14.9 Ceasing to Be a Director

A director ceases to be a director when:

- (a) the term of office of the director expires;
- (b) the director dies;
- (c) the director resigns as a director by notice in writing provided to the Company or a lawyer for the Company; or
- (d) the director is removed from office pursuant to Articles 14.10 or 14.11.

14.10 Removal of Director by Shareholders

The Company may remove any director before the expiration of his or her term of office by special resolution. In that event, the shareholders may elect, or appoint by ordinary resolution, a director to fill the resulting vacancy. If the shareholders do not elect or appoint a director to fill the resulting vacancy contemporaneously with the removal, then the directors may appoint or the shareholders may elect, or appoint by ordinary resolution, a director to fill that vacancy.

14.11 Removal of Director by Directors

The directors may remove any director before the expiration of his or her term of office if the director is convicted of an indictable offence, or if the director ceases to be qualified to act as a director of a company and does not promptly resign, and the directors may appoint a director to fill the resulting vacancy.

15. ALTERNATE DIRECTORS

15.1 Appointment of Alternate Director

Any director (an “appointor”) may by notice in writing received by the Company appoint any person (an “appointee”) who is qualified to act as a director to be his or her alternate to act in his or her place at meetings of the directors or committees of the directors at which the appointor is

not present unless (in the case of an appointee who is not a director) the directors have reasonably disapproved the appointment of such person as an alternate director and have given notice to that effect to his or her appointor within a reasonable time after the notice of appointment is received by the Company.

15.2 Notice of Meetings

Every alternate director so appointed is entitled to notice of meetings of the directors and of committees of the directors of which his or her appointor is a member and to attend and vote as a director at any such meetings at which his or her appointor is not present.

15.3 Alternate for More Than One Director Attending Meetings

A person may be appointed as an alternate director by more than one director, and an alternate director:

- (a) will be counted in determining the quorum for a meeting of directors once for each of his or her appointors and, in the case of an appointee who is also a director, once more in that capacity;
- (b) has a separate vote at a meeting of directors for each of his or her appointors and, in the case of an appointee who is also a director, an additional vote in that capacity;
- (c) will be counted in determining the quorum for a meeting of a committee of directors once for each of his or her appointors who is a member of that committee and, in the case of an appointee who is also a member of that committee as a director, once more in that capacity;
- (d) has a separate vote at a meeting of a committee of directors for each of his or her appointors who is a member of that committee and, in the case of an appointee who is also a member of that committee as a director, an additional vote in that capacity.

15.4 Consent Resolutions

Every alternate director, if authorized by the notice appointing him or her, may sign in place of his or her appointor any resolutions to be consented to in writing.

15.5 Alternate Director Not an Agent

Every alternate director is deemed not to be the agent of his or her appointor.

15.6 Revocation of Appointment of Alternate Director

An appointor may at any time, by notice in writing received by the Company, revoke the appointment of an alternate director appointed by him or her.

15.7 Ceasing to Be an Alternate Director

The appointment of an alternate director ceases when:

- (a) his or her appointor ceases to be a director and is not promptly re-elected or re-appointed;
- (b) the alternate director dies;
- (c) the alternate director resigns as an alternate director by notice in writing provided to the Company or a lawyer for the Company;
- (d) the alternate director ceases to be qualified to act as a director; or
- (e) his or her appointor revokes the appointment of the alternate director.

15.8 Remuneration and Expenses of Alternate Director

The Company may reimburse an alternate director for the reasonable expenses that would be properly reimbursed if he or she were a director, and the alternate director is entitled to receive from the Company such proportion, if any, of the remuneration otherwise payable to the appointer as the appointer may from time to time direct.

16. POWERS AND DUTIES OF DIRECTORS

16.1 Powers of Management

The directors must, subject to the *Business Corporations Act* and these Articles, manage or supervise the management of the business and affairs of the Company and have the authority to exercise all such powers of the Company as are not, by the *Business Corporations Act* or by these Articles, required to be exercised by the shareholders of the Company.

16.2 Appointment of Attorney of Company

The directors may from time to time, by power of attorney or other instrument, under seal if so required by law, appoint any person to be the attorney of the Company for such purposes, and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the directors under these Articles and excepting the power to fill) vacancies in the board of directors, to remove a director, to change the membership of, or fill vacancies in, any committee of the directors, to appoint or remove officers appointed by the directors and to declare dividends) and for such period, and with such remuneration and subject to such conditions as the directors may think fit. Any such power of attorney may contain such provisions for the protection or convenience of persons dealing with such attorney as the directors think fit. Any such attorney may be authorized by the directors to sub-delegate all or any of the powers, authorities and discretions for the time being vested in him or her.

17. DISCLOSURE OF INTEREST OF DIRECTORS

17.1 Obligation to Account for Profits

A director or senior officer who holds a disclosable interest (as that term is used in the *Business Corporations Act*) in a contract or transaction into which the Company has entered or proposes to enter is liable to account to the Company for any profit that accrues to the director or senior officer under or as a result of the contract or transaction only if and to the extent provided in the *Business Corporations Act*.

17.2 Restrictions on Voting by Reason of Interest

A director who holds a disclosable interest in a contract or transaction into which the Company has entered or proposes to enter is not entitled to vote on any directors' resolution to approve that contract or transaction, unless all the directors have a disclosable interest in that contract or transaction, in which case any or all of those directors may vote on such resolution.

17.3 Interested Director Counted in Quorum

A director who holds a disclosable interest in a contract or transaction into which the Company has entered or proposes to enter and who is present at the meeting of directors at which the contract or transaction is considered for approval may be counted in the quorum at the meeting whether or not the director votes on any or all of the resolutions considered at the meeting.

17.4 Disclosure of Conflict of Interest or Property

A director or senior officer who holds any office or possesses any property, right or interest that could result, directly or indirectly, in the creation of a duty or interest that materially conflicts with that individual's duty or interest as a director or senior officer, must disclose the nature and extent of the conflict as required by the *Business Corporations Act*.

17.5 Director Holding Other Office in the Company

A director may hold any office or place of profit with the Company, other than the office of auditor of the Company, in addition to his or her office of director for the period and on the terms (as to remuneration or otherwise) that the directors may determine.

17.6 No Disqualification

No director or intended director is disqualified by his or her office from contracting with the Company either with regard to the holding of any office or place of profit the director holds with the Company or as vendor, purchaser or otherwise, and no contract or transaction entered into by or on behalf of the Company in which a director is in any way interested is liable to be voided for that reason.

17.7 Professional Services By Director or Officer

Subject to the *Business Corporations Act*, a director or officer, or any person in which a director or officer has an interest, may act in a professional capacity for the Company, except as auditor of the Company, and the director or officer or such person is entitled to remuneration for professional services as if that director or officer were not a director or officer.

17.8 Director or Officer in Other Corporations

A director or officer may be or become a director, officer or employee of, or otherwise interested in, any person in which the Company may be interested as a shareholder or otherwise, and, subject to the *Business Corporations Act*, the director or officer is not accountable to the Company for any remuneration or other benefits received by him or her as a director, officer or employee of, or from his or her interest in, such other person.

18. PROCEEDINGS OF DIRECTORS

18.1 Meetings of Directors

The directors may meet together for the conduct of business, adjourn and otherwise regulate their meetings as they think fit, and meetings of the directors held at regular intervals may be held at the place, at the time and on the notice, if any, as the directors may from time to time determine.

18.2 Voting at Meetings

Questions arising at any meeting of directors are to be decided by a majority of votes and, in the case of an equality of votes, the chair of the meeting does not have a second or casting vote.

18.3 Chair of Meetings

The following individual is entitled to preside as chair at a meeting of directors:

- (a) the chair of the board, if any;
 - (b) in the absence of the chair of the board, the president, if any, if the president is a director; or
 - (c) any other director chosen by the directors if:
 - (i) neither the chair of the board nor the president, if a director, is present at the meeting within 15 minutes after the time set for holding the meeting;
 - (ii) neither the chair of the board nor the president, if a director, is willing to chair the meeting; or
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- (iii) the chair of the board and the president, if a director, have advised the secretary, if any, or any other director, that they will not be present at the meeting.

18.4 Meetings by Telephone or Other Communications Medium

A director may participate in a meeting of the directors or of any committee of the directors in person or by telephone if all directors participating in the meeting, whether in person or by telephone or other communications medium, are able to communicate with each other. A director may participate in a meeting of the directors or of any committee of the directors by a communications medium other than telephone if all directors participating in the meeting, whether in person or by telephone or other communications medium, are able to communicate with each other and if all directors who wish to participate in the meeting agree to such participation. A director who participates in a meeting in a manner contemplated by this Article 18.4 is deemed for all purposes of the *Business Corporations Act* and these Articles to be present at the meeting and to have agreed to participate in that manner.

18.5 Calling of Meetings

A director may, and the secretary or an assistant secretary of the Company, if any, on the request of a director must, call a meeting of the directors at any time.

18.6 Notice of Meetings

Other than for meetings held at regular intervals as determined by the directors pursuant to Article 18.1, reasonable notice of each meeting of the directors, specifying the place, day and time of that meeting must be given to each of the directors and the alternate directors by any method set out in Article 24.1 or orally or by telephone.

18.7 When Notice Not Required

It is not necessary to give notice of a meeting of the directors to a director or an alternate director if:

- (a) the meeting is to be held immediately following a meeting of shareholders at which that director was elected or appointed, or is the meeting of the directors at which that director is appointed; or
- (b) the director or alternate director, as the case may be, has waived notice of the meeting.

18.8 Meeting Valid Despite Failure to Give Notice

The accidental omission to give notice of any meeting of directors to, or the non-receipt of any notice by, any director or alternate director, does not invalidate any proceedings at that meeting.

18.9 Waiver of Notice of Meetings

Any director or alternate director may send to the Company a document signed by him or her waiving notice of any past, present or future meeting or meetings of the directors and may at any time withdraw that waiver with respect to meetings held after that withdrawal. After sending a waiver with respect to all future meetings and until that waiver is withdrawn, no notice of any meeting of the directors need be given to that director and, unless the director otherwise requires by notice in writing to the Company, to his or her alternate director, and all meetings of the directors so held are deemed not to be improperly called or constituted by reason of notice not having been given to such director or alternate director.

18.10 Quorum

The quorum necessary for the transaction of the business of the directors may be set by the directors and, if not so set, is deemed to be set at two directors or, if the number of directors is set at one, is deemed to be set at one director, and that director may constitute a meeting.

18.11 Validity of Acts Where Appointment Defective

Subject to the *Business Corporations Act*, an act of a director or officer is not invalid merely because of an irregularity in the election or appointment or a defect in the qualification of that director or officer.

18.12 Consent Resolutions in Writing

A resolution of the directors or of any committee of the directors may be passed without a meeting:

- (1) in all cases, if each of the directors entitled to vote on the resolution consents to it in writing; or
- (2) in the case of a resolution to approve a contract or transaction in respect of which a director has disclosed that he or she has or may have a disclosable interest, if each of the other directors who are entitled to vote on the resolution consents to it in writing.

A consent in writing under this Article may be by signed document, fax, email or any other method of transmitting legibly recorded messages. A consent in writing may be in two or more counterparts which together are deemed to constitute one consent in writing. A resolution of the directors or of any committee of the directors passed in accordance with this Article 18.12 is effective on the date stated in the consent in writing or on the latest date stated on any counterpart and is deemed to be a proceeding at a meeting of directors or of the committee of the directors and to be as valid and effective as if it had been passed at a meeting of the directors or of the committee of the directors that satisfies all the requirements of the *Business Corporations Act* and all the requirements of these Articles relating to meetings of the directors or of a committee of the directors.

19. EXECUTIVE AND OTHER COMMITTEES

19.1 Appointment and Powers of Executive Committee

The directors may, by resolution, appoint an executive committee consisting of the director or directors that they consider appropriate, and this committee has, during the intervals between meetings of the board of directors, all of the directors' powers, except:

- (a) the power to fill vacancies in the board of directors;
- (b) the power to remove a director;
- (c) the power to change the membership of, or fill vacancies in, any committee of the directors; and
- (d) such other powers, if any, as may be set out in the resolution or any subsequent directors' resolution.

19.2 Appointment and Powers of Other Committees

The directors may, by resolution:

- (a) appoint one or more committees (other than the executive committee) consisting of the director or directors that they consider appropriate;
- (b) delegate to a committee appointed under paragraph (a) any of the directors' powers, except:
 - (i) the power to fill vacancies in the board of directors;
 - (ii) the power to remove a director;
 - (iii) the power to change the membership of, or fill vacancies in, any committee of the directors; and
 - (iv) the power to appoint or remove officers appointed by the directors; and
- (c) make any delegation referred to in paragraph (b) subject to the conditions set out in the resolution or any subsequent directors' resolution.

19.3 Obligations of Committees

Any committee appointed under Articles 19.1 or 19.2 in the exercise of the powers delegated to it, must:

- (a) conform to any rules that may from time to time be imposed on it by the directors; and
-

- (b) report every act or thing done in exercise of those powers at such times as the directors may require.

19.4 Powers of Board

The directors may, at any time, with respect to a committee appointed under Articles 19.1 or 19.2:

- (a) revoke or alter the authority given to the committee, or override a decision by the committee, except as to acts done before such revocation, alteration or overriding;
- (b) terminate the appointment of, or change the membership of, the committee; and
- (c) fill vacancies in the committee.

19.5 Committee Meetings

Subject to Article 19.3(a) and unless the directors otherwise provide in the resolution appointing the committee or in any subsequent resolution, with respect to a committee appointed under Articles 19.1 or 19.2:

- (a) the committee may meet and adjourn as it thinks proper;
- (b) the committee may elect a chair of its meeting but, if no chair of a meeting is elected, or if at a meeting the chair of the meeting is not present within 15 minutes after the time set for holding the meeting, the directors present who are members of the committee may choose one of their members to chair the meeting;
- (c) a majority of the members of the committee constitutes a quorum of the committee; and
- (d) questions arising at any meeting of the committee are determined by a majority of votes of the members present, and in the case of an equality of votes, the chair of the meeting does not have a second or casting vote.

20. OFFICERS

20.1 Directors May Appoint Officers

The directors may, from time to time, appoint such officers, if any, as the directors determine and the directors may, at any time, terminate any such appointment.

20.2 Functions, Duties and Powers of Officers

The directors may, for each officer:

- (a) determine the functions and duties of the officer;
-

- (b) entrust to and confer on the officer any of the powers exercisable by the directors on such terms and conditions and with such restrictions as the directors think fit; and
- (c) revoke, withdraw, alter or vary all or any of the functions, duties and powers of the officer.

20.3 Qualifications

No officer may be appointed unless that officer is qualified in accordance with the *Business Corporations Act*. One person may hold more than one position as an officer of the Company. Any person appointed as the chair of the board or as a managing director must be a director. Any other officer need not be a director.

20.4 Remuneration and Terms of Appointment

All appointments of officers are to be made on the terms and conditions and at the remuneration (whether by way of salary, fee, commission, participation in profits or otherwise) that the directors thinks fit and are subject to termination at the pleasure of the directors, and an officer may in addition to such remuneration be entitled to receive, after he or she ceases to hold such office or leaves the employment of the Company, a pension or gratuity.

21. INDEMNIFICATION

21.1 Definitions

In this Article 21:

- (a) “eligible penalty” means a judgment, penalty or fine awarded or imposed in, or an amount paid in settlement of, an eligible proceeding;
 - (b) “eligible proceeding” means a legal proceeding or investigative action, whether current, threatened, pending or completed, in which a director, former director or alternate director of the Company (an “eligible party”) or any of the heirs and legal personal representatives of the eligible party, by reason of the eligible party being or having been a director or alternate director of the Company:
 - (i) is or may be joined as a party; or
 - (ii) is or may be liable for or in respect of a judgment, penalty or fine in, or expenses related to, the proceeding;
 - (c) “expenses” has the meaning set out in the *Business Corporations Act*.
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21.2 Mandatory Indemnification of Directors and Former Directors

Subject to the *Business Corporations Act*, the Company must indemnify a director, former director or alternate director of the Company and his or her heirs and legal personal representatives against all eligible penalties to which such person is or may be liable, and the Company must, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by such person in respect of that proceeding. Each director and alternate director is deemed to have contracted with the Company on the terms of the indemnity contained in this Article 21.2.

21.3 Indemnification of Other Persons

Subject to any restrictions in the *Business Corporations Act*, the Company may indemnify any person.

21.4 Non-Compliance with Business Corporations Act

The failure of a director, alternate director or officer of the Company to comply with the *Business Corporations Act* or these Articles does not invalidate any indemnity to which he or she is entitled under this Part.

21.5 Company May Purchase Insurance

The Company may purchase and maintain insurance for the benefit of any person (his or her heirs or legal personal representatives) who:

- (a) is or was a director, alternate director, officer, employee or agent of the Company;
- (b) is or was a director, alternate director, employee or agent of a corporation at a time when the corporation is or was an affiliate of the Company;
- (c) at the request of the Company, is or was a director, alternate director, officer, employee or agent of a corporation or of a partnership, trust, joint venture or other unincorporated entity;
- (d) at the request of the Company, holds or held a position equivalent to that of a director, alternate director or officer of a partnership, trust, joint venture or other unincorporated entity;

against any liability incurred by him or her as such director, alternate director, officer, employee or agent or person who holds or held such equivalent position.

22. DIVIDENDS

22.1 Payment of Dividends Subject to Special Rights

The provisions of this Article 22 are subject to the rights, if any, of shareholders holding shares with special rights as to dividends.

22.2 Declaration of Dividends

Subject to the *Business Corporations Act*, the directors may from time to time declare and authorize payment of such dividends as they may deem advisable.

22.3 No Notice Required

The directors need not give notice to any shareholder of any declaration under Article 22.2.

22.4 Record Date

The directors may set a date as the record date for the purpose of determining shareholders entitled to receive payment of a dividend. The record date must not precede the date on which the dividend is to be paid by more than two months. If no record date is set, the record date is 5 p.m. on the date on which the directors pass the resolution declaring the dividend.

22.5 Manner of Paying Dividend

A resolution declaring a dividend may direct payment of the dividend wholly or partly by the distribution of specific assets or of fully paid shares or of bonds, debentures or other securities of the Company, or in anyone or more of those ways.

22.6 Settlement of Difficulties

If any difficulty arises in regard to a distribution under Article 22.5, the directors may settle the difficulty as they deem advisable, and, in particular, may:

- (a) set the value for distribution of specific assets;
- (b) determine that cash payments in substitution for all or any part of the specific assets to which any shareholders are entitled may be made to any shareholders on the basis of the value so fixed in order to adjust the rights of all parties; and
- (c) vest any such specific assets in trustees for the persons entitled to the dividend.

22.7 When Dividend Payable

Any dividend may be made payable on such date as is fixed by the directors.

22.8 Dividends to be Paid in Accordance with Number of Shares

All dividends on shares of any class or series of shares must be declared and paid according to the number of such shares held.

22.9 Receipt by Joint Shareholders

If several persons are joint shareholders of any share, any one of them may give an effective receipt for any dividend, bonus or other money payable in respect of the share.

22.10 Dividend Bears No Interest

No dividend bears interest against the Company.

22.11 Fractional Dividends

If a dividend to which a shareholder is entitled includes a fraction of the smallest monetary unit of the currency of the dividend, that fraction may be disregarded in making payment of the dividend and that payment represents full payment of the dividend.

22.12 Payment of Dividends

Any dividend or other distribution payable in cash in respect of shares may be paid by cheque, made payable to the order of the person to whom it is sent, and mailed to the address of the shareholder, or in the case of joint shareholders, to the address of the joint shareholder who is first named on the central securities register, or the person and to the address the shareholder or joint shareholders may direct in writing. The mailing of such cheque will, to the extent of the sum represented by the cheque (plus the amount of the tax required by law to be deducted), discharge all liability for the dividend unless such cheque is not paid on presentation or the amount of tax so deducted is not paid to the appropriate taxing authority.

23. DOCUMENTS, RECORDS AND REPORTS

23.1 Recording of Financial Affairs

The directors must cause adequate accounting records to be kept to record properly the financial affairs and condition of the Company and to comply with the *Business Corporations Act*.

23.2 Inspection of Accounting Records

Unless the directors determine otherwise, or unless otherwise determined by ordinary resolution, no shareholder of the Company is entitled to inspect or obtain a copy of any accounting records of the Company.

24. NOTICES

24.1 Method of Giving Notice

Unless the *Business Corporations Act* or these Articles provides otherwise, a notice, statement, report or other record required or permitted by the *Business Corporations Act* or these Articles to be sent by or to a person may be sent by anyone of the following methods:

- (a) mail addressed to the person at the applicable address for that person as follows:
 - (i) for a record mailed to a shareholder, the shareholder's registered address;
 - (ii) for a record mailed to a director or officer, the prescribed address for mailing shown for the director or officer in the records kept by the Company or the mailing address provided by the recipient for the sending of that record or records of that class;
 - (iii) in any other case, the mailing address of the intended recipient;
- (b) delivery at the applicable address for that person as follows, addressed to the person:
 - (i) for a record delivered to a shareholder, the shareholder's registered address;
 - (ii) for a record delivered to a director or officer, the prescribed address for delivery shown for the director or officer in the records kept by the Company or the delivery address provided by the recipient for the sending of that record or records of that class;
 - (iii) in any other case, the delivery address of the intended recipient;
- (c) sending the record by fax to the fax number provided by the intended recipient for the sending of that record or records of that class;
- (d) sending the record by email to the email address provided by the intended recipient for the sending of that record or records of that class;
- (e) physical delivery to the intended recipient.

24.2 Deemed Receipt of Mailing

A record that is mailed to a person by ordinary mail to the applicable address for that person referred to in Article 24.1 is deemed to be received by the person to whom it was mailed on the day, Saturdays, Sundays and holidays excepted, following the date of mailing.

24.3 Certificate of Sending

A certificate signed by the secretary, if any, or other officer of the Company or of any other corporation acting in that behalf for the Company stating that a notice, statement, report or other record was addressed as required by Article 24.1, prepaid and mailed or otherwise sent as permitted by Article 24.1 is conclusive evidence of that fact.

24.4 Notice to Joint Shareholders

A notice, statement, report or other record may be provided by the Company to the joint shareholders of a share by providing the notice to the joint shareholder first named in the central securities register in respect of the share.

24.5 Notice to Trustees

A notice, statement, report or other record may be provided by the Company to the persons entitled to a share in consequence of the death, bankruptcy or incapacity of a shareholder by:

- (a) mailing the record, addressed to them:
 - (i) by name, by the title of the legal personal representative of the deceased or incapacitated shareholder, by the title of trustee of the bankrupt shareholder or by any similar description; and
 - (i) at the address, if any, supplied to the Company for that purpose by the persons claiming to be so entitled; or
- (b) if an address referred to in paragraph (a)(ii) has not been supplied to the Company, by giving the notice in a manner in which it might have been given if the death, bankruptcy or incapacity had not occurred.

25. SEAL

25.1 Who May Attest Seal

Except provided in Articles 25.2 and 25.3, the Company's seal, if any, must not be impressed on any record except when that impression is attested by the signatures of:

- (a) any two directors;
- (b) any officer, together with any director;
- (c) if the Company only has one director, that director; or
- (d) any one or more directors or officers or persons as may be determined by the directors.

25.2 Sealing Copies

For the purpose of certifying under a seal a certificate of incumbency of the directors or officers of the Company or a true copy of any resolution or other document, despite Article 25.1, the impression of the seal may be attested by the signature of any director or officer.

25.3 Mechanical Reproduction of Seal

The directors may authorize the seal to be impressed by third parties on share certificates or bonds, debentures or other securities of the Company as they may determine appropriate from time to time. To enable the seal to be impressed on any share certificates or bonds, debentures or other securities of the Company, whether in definitive or interim form, on which facsimiles of any of the signatures of the directors or officers of the Company are, in accordance with the *Business Corporations Act* or these Articles, printed or otherwise mechanically reproduced, there may be delivered to the person employed to engrave, lithograph or print such definitive or interim share certificates or bonds, debentures or other securities one or more unmounted dies reproducing the seal and the chair of the board or any senior officer together with the secretary, treasurer, secretary-treasurer, an assistant secretary, an assistant treasurer or an assistant secretary-treasurer may in writing authorize such person to cause the seal to be impressed on such definitive or interim share certificates or bonds, debentures or other securities by the use of such dies. Share certificates or bonds, debentures or other securities to which the seal has been so impressed are for all purposes deemed to be under and to bear the seal impressed on them.

26. PROHIBITIONS

26.1 Definitions

In this Article 26:

- (a) “designated security” means:
 - (i) a voting security of the Company;
 - (ii) a security of the Company that is not a debt security and that carries a residual right to participate in the earnings of the Company or, on the liquidation or winding up of the Company, in its assets; or
 - (iii) a security of the Company convertible, directly or indirectly, into a security described in paragraph (a) or (b);
 - (b) “security” has the meaning assigned in the *Securities Act* (British Columbia);
 - (c) “voting security” means a security of the Company that:
 - (i) is not a debt security, and
 - (ii) carries a voting right either under all circumstances or under some circumstances that have occurred and are continuing.
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26.2 Application

Article 26.3 does not apply to the Company if and for so long as it is a public company or a preexisting reporting company which has the Statutory Reporting Company Provisions as part of its Articles or to which the Statutory Reporting Company Provisions apply.

26.3 Consent Required for Transfer of Shares or Designated Securities

No share or designated security may be sold, transferred or otherwise disposed of without the consent of the directors and the directors are not required to give any reason for refusing to consent to any such sale, transfer or other disposition.

27 SPECIAL RIGHTS AND RESTRICTIONS ATTACHING TO THE COMMON SHARES

27.1 Voting Rights

The common shares will be entitled to vote at all meetings of members of the Company except meetings at which only holders of a specified class of shares are entitled to vote.

27.2 Dividend Rights on Common Shares

The common shares will be entitled to a dividend from time to time as determined by the directors.

27.3 Dissolution

In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its members for the purpose of winding up its affairs, the holders of the common shares will be entitled to receive the remaining property of the Company.



CERTIFICATE OF CHANGE OF NAME

BUSINESS CORPORATIONS ACT

I Hereby Certify that KWESST MICRO SYSTEMS INC. changed its name to DEFSEC TECHNOLOGIES INC. on June 30, 2025 at 12:01 AM Pacific Time.

Issued under my hand at Victoria, British Columbia On June 30, 2025



ELECTRONIC CERTIFICATE

SINEAD O'CALLAGHAN
Registrar of Companies
Province of British Columbia
Canada



KWESST MICRO SYSTEMS INC.
CODE OF BUSINESS CONDUCT AND ETHICS

PURPOSE OF THIS CODE

KWESST Micro Systems Inc. (the “**Company**”) has adopted this Code of Business Conduct and Ethics (the “**Code**”) in order to document the principles of conduct and ethics to be adhered to by the Company’s directors, officers and employees, and to establish mechanisms for the reporting of unethical conduct.

The Company is committed to:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- operating in a responsible manner that complies with applicable laws, rules and regulations;
- promoting the avoidance of conflicts of interest;
- promoting the prompt internal reporting of violations of this Code and other policies applicable to the Company;
- providing a safe and healthy workplace
- providing accountability for adherence to the Code; and
- providing full, fair, accurate, timely and understandable disclosure in reports and documents filed with any governing body or which are publicly disclosed;

and the Company requires its directors and officers to provide leadership and direction with respect to these principles and standards.

When used herein, the “**Company**” shall refer to the Company and to its subsidiaries.

1. COMPLIANCE WITH THE CODE

This Code is a reflection of the Company’s commitment to the highest standards of governance and ethics. As such, all directors, officers and employees of the Company are required to:

- a) Comply with the Code.
- b) Assist and co-operate with audits and investigations related to the Code and other policies of the Company.
- c) Promptly report violations of the Code.

Directors, officers or employees of the Company who are found to have violated the Code will be subject to disciplinary measures. Such measures may include but are not limited to, taking corrective actions with respect to the violation, suspension, demotion and possible termination of their employment or relationship with the Company. In addition, the Company may, where appropriate, refer the matter to relevant government authorities.

2. COMPLIANCE WITH LAWS

The Company expects everyone to comply with all applicable laws, rules and regulations in performing work for the Company, including without limitation, those dealing with public disclosure, insider trading, discrimination and harassment, and health and safety. Violations of laws, rules or regulations can lead to disciplinary measures under the Code and may result in civil or criminal liability for the Company and the person or persons involved.

As such, directors, officers and employees will:

- a) Comply with all laws, rules and regulations in connection with their work for the Company.
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- b) Seek clarification and advice if they are unsure about any law, rule or regulation or if they have questions related to any law, rule or regulation.
- c) Never commit or condone an illegal act in any way related to or during the course of their work for the Company, nor authorize or encourage others to act in an illegal manner.
- d) Avoid conduct that could bring the reputation and integrity of the Company into question.

The Company is committed to ensuring that its business operations are not used by others to facilitate illegal activity. In particular, the Company will strive to prevent its operations from being used in any manner to launder money or further the interests of terrorism.

3. RECORD KEEPING AND CONTROL SYSTEMS

The Company's record keeping and control systems are critical components of its business and the integrity of such systems must be maintained at all times. As such, directors, officers and employees will:

- a) Strive to ensure that the Company's records (including financial and bookkeeping records, public disclosure documents, reports, presentations, safety documents, monitoring data and correspondence) are complete, true, accurate and understandable, and provide assistance and information necessary to maintain them as such.
- b) Never use, authorize or encourage improper or deceptive accounting practices, such as falsification of books and records, that could, among other things, result in the Company's operating results or performance being fallacious or misleading, or be intended to hide violations of this Code or any applicable law.
- c) Never destroy, alter, or render unreadable Company records for an improper or illicit purpose and comply with the Company's records management processes, with special care being given to financial, bookkeeping and other accounting records.
- d) Retain the Company records as required by law and as otherwise notified by the Company's legal personnel.
- e) Return the Company records to the Company and notify the appropriate management member as to the location of such records upon changing roles or ceasing employment with the Company.

Information, data, records, documents and communications (in any format) created or received in the ordinary course of business or in connection with a director's, officer's or employee's job function, are the property of the Company.

4. EMPLOYEE RELATIONS

The Company believes that a strong, enthusiastic workforce is critical to its success. The Company strives to ensure that all employees and contractors are treated fairly and recognizes that the work conditions of its employees, their wages and their job satisfaction have deep impacts not only on the employees themselves, but also on their families, the communities in which they live and on the environment. As such, the Company believes that it is in the best interest of all parties to work together in a respectful and understanding manner and is committed to providing an environment that is frank and open and provides equal opportunities to its employees.

Directors, officers and employees will:

- a) Treat each other and members of the community in which the Company operates with respect and courtesy.
- b) Strive to keep the workplace free from harassment.

The Company does not condone the use of factors such as race, religion, colour, sex, sexual orientation or ethnicity as the basis for decisions related to hiring, promotions, pay or terminations, nor should directors, officers or employees allow physical disabilities to form the basis of work-related decisions, unless the disability interferes with a person's ability to perform a job in a safe and effective manner and the disability cannot reasonably be accommodated.

5. USE OF COMPANY ASSETS AND PROPERTY

Directors, officers and employees must safeguard and not use corporate property to pursue private interests or the interests of a spouse, family members or a private corporation controlled by any of these individuals. Company property includes real and tangible items such as land, buildings, furniture, fixtures, equipment, supplies, and vehicles and also includes intangible items such as data, computer systems, reports, information, patents, trademarks, copyrights, logos, name and reputation.

Directors, officers and employees will:

- a) Except for the limited exception provided in (b) below, always use the Company's assets and resources only for Company related business purposes unless the Company provides its prior written approval for the director, officer or employee to use Company property for their personal interest in circumstances where doing so would:
 - i. not result in additional cost to the Company;
 - ii. not interfere with the performance of the person's duties to the Company; and
 - iii. not result in material personal gain to the person or to their spouse, family member or private corporation.
- b) Limit personal use of the Company's computers and software, e-mail, telephones, mobile devices, internet and other electronic systems to incidental, reasonable amounts (i.e. personal use must not interfere with the proper performance of job duties), and follow other provisions of this Code and other Company policies as they relate to use of Company assets and resources.
- c) Exercise prudence and good judgment when incurring and approving business expenses and ensure that such expenses are reasonable, bona fide and appropriate and serve the Company's business interests.
- d) Never steal, damage, misuse or waste the Company assets.
- e) Never use the Company assets in an illegal or improper manner or for an illegal or improper purpose.

6. CONFLICTS OF INTEREST

Directors, officers and employees shall avoid situations where their individual personal interests could conflict with, or appear to conflict with, the interests of the Company and its stakeholders, and shall perform the responsibilities of their positions on the basis of what is in the best interests of the Company, free from the influence of personal considerations and relationships.

A conflict of interest may be real or apparent:

- a) A "real conflict of interest" occurs when directors, officers or employees exercise their corporate duties, official powers or perform official duties or functions and at the same time know that in doing so there is the opportunity for personal gain.
- b) An "apparent conflict of interest" occurs when a reasonably well-informed person could have a perception that a director's, officer's or employee's ability to exercise their corporate duty, an official power or perform an official duty or function was or will be affected by that individual's private interest.

Directors and officers have a duty to act honestly, in good faith, and in the best interests of the Company and must exercise the degree of skill and diligence reasonably expected from an ordinary person of his or her knowledge and experience.

Conflicts of interest can include the following:

a) Furthering Private Interests

- i) Directors, officers and employees should avoid outside financial interests that might influence their corporate decisions or actions, and should not engage in such activities or transactions where the activity or transaction may be detrimental to the Company or where the activity may be in conflict with the proper discharge of their duties to the Company.
- ii) If a director, officer or employee is directly or indirectly personally interested in a proposed activity or transaction which involves the Company, or if the director or officer has discretionary decision-making power which could bring about direct or indirect financial benefit to the director, officer or employee due to his or her financial holdings, business and property interests or other relationships, there is potential for a conflict of interest. In these instances, at a minimum, these circumstances and these holdings should be fully disclosed in advance to the Chief Financial Officer of the Company. If it is determined there is a conflict of interest, the conflict must be fully disclosed in advance to the Audit Committee.

b) Corporate Opportunities

- i. Directors, officers and employees cannot divert to a third party, themselves, their spouses, their children or a private corporation controlled by any of these individuals, a business opportunity that the Company is pursuing.
- ii. A director, officer or employee of the Company whose corporate duties bring them into business dealings with a business in which they or a member of their family has a financial interest or to which they or a member of their family has an indebtedness, or a business employing a relative or close friend, must immediately:
 - a) in respect of a director or officer, notify the Audit Committee; and
 - b) in respect of an employee, notify his or her immediate supervisor, who will then notify the Chief Financial Officer and ultimately to the Audit Committee;and such business dealings may not be pursued unless properly authorized by the Audit Committee.

c) Preferential Treatment

Directors, officers and employees must not assist others in their dealings with the Company if this may result in preferential treatment. A director, officer or employee who exercises regulatory, inspection or other discretionary authority over others, must disqualify themselves from dealing with individuals where the director's, officer's or employee's relationship with the individual could bring their impartiality into question.

d) Workplace Relationships

Directors, officers, employees and individuals who are direct relatives or who permanently reside together may not be employed or hold office in situations where:

- i. A reporting relationship exists where a director, officer or employee has influence, input or decision- making power over the relative or cohabitant's performance evaluation, salary, special permissions, conditions of work or similar matters; and
- ii. The working relationship affords an opportunity for collusion between the individuals that could have a detrimental effect on the Company's interest.

This restriction may be waived if the Audit Committee is satisfied that sufficient safeguards are in place to ensure that the interests of the Company are not compromised.

7. ACCEPTING GIFTS, BENEFITS AND ENTERTAINMENT

Directors, officers and employees:

- a) May generally accept gifts, hospitality or other similar benefits (other than cash or cash equivalents which must never be accepted) associated with their official duties and responsibilities if such gifts, hospitality or other benefits:
 - i. are within the bounds of propriety, a normal expression of courtesy or within reasonable standards of hospitality;
 - ii. are advertising and promotional materials, clearly marked with the company or brand name;
 - iii. would not bring suspicion on the director's, officer's or employee's objectivity and impartiality; or
 - iv. would not compromise the integrity and reputation of the Company.
- b) Notwithstanding (a) above, will never solicit or accept gifts, benefits or entertainment in exchange for, or as a condition of, the exercise of duties or as an inducement for performing an act associated with the director's, officer's or employee's duties or responsibilities to the Company and will never solicit or accept a gift of cash or cash equivalent from a business partner or anyone else with whom the Company does business in connection with that director's, officer's or employee's position, duties or responsibilities within the Company.
- c) Will return any improper gift or benefit to the person offering it as soon as practicable or, if there is no opportunity to return an improper gift or benefit, or where the return may be perceived as offensive or inappropriate for cultural or other reasons, immediately disclose and turn over the gift or benefit to the Chief Financial Officer who will attend to a suitable disposition of the item.

8. FRAUD OR BRIBERY

The Company is committed to the highest level of honesty and integrity and therefore does not tolerate fraud or bribery. Fraud can include a wide range of activities, such as falsifying books, records or timesheets, embezzlement, skimming and misappropriating Company assets (including such things as proprietary information and corporate opportunities) for personal gain.

Bribery of government officials, government entities and commercial customers is illegal in most countries. It can take different forms, such as cash payments, gifts, employment opportunities, quid pro quo transactions, directing business to a particular individual or business, excessive hospitality or providing services or other benefits or things of value to a person, organization, or company or to those related to a particular person, organization, or company.

There are serious criminal and civil consequences for fraud and bribery, including fines and imprisonment, and the Company considers fraud and the payment of bribes or other corrupt activity serious misconduct and grounds for dismissal.

9. POLITICAL AND CHARITABLE DONATIONS

Laws in many jurisdictions prohibit or regulate corporate donations to governments, political parties, politicians, and candidates for public office. The Company's policy is that all corporate contributions to governments, political parties, politicians, or candidates for public office are prohibited unless they are approved in advance by the Chief Executive Officer of the Company. The Company may also donate to certain charities.

10. COMMUNICATING WITH THE MEDIA AND OTHER MEMBERS OF THE PUBLIC

The Company is committed to ensuring that disclosure made by the Company to its shareholders and to the public in general, and in reports and documents it files with appropriate securities commissions is made in a timely manner, is full, fair, accurate and understandable, and is broadly disseminated in accordance with all applicable legal and regulatory requirements.

Directors, officers and employees will:

- a) Always comply with the Company's Disclosure Policy which set out the Company's policies regarding public disclosure, identify spokespersons for the Company, and establish rules for directors, officers and employees relating to trading securities of the Company.
- b) Not respond under any circumstances to inquiries from external parties unless they are a designated spokesperson for the Company, or are specifically asked to respond by such a Company spokesperson or are otherwise expressly authorized to do so by the Executive Chairman.

11. CONFIDENTIALITY AND MISUSE OF UNDISCLOSED MATERIAL INFORMATION

Directors, officers and employees of the Company are required to maintain and protect the confidentiality of all information and materials relating to the Company which are entrusted to them, or which they receive by virtue of their position or employment with the Company. Such information may only be divulged to persons authorized to receive the information. For greater certainty, confidential information should not be divulged to spouses, associates, immediate family, friends, or persons with whom the director, officer or employee is connected by frequent or close association.

In addition, directors, officers and employees must not engage in any transactions for personal benefit which results or may result from confidential or non-public information which the director, officer or employee gains by reason of their position or authority. In addition to the foregoing prohibition under the Code, directors, officers and employees should be aware that securities laws make it illegal to use material non-public information when buying, selling or otherwise trading shares ("**insider trading**") and passing on this information to others for their use when buying, selling or otherwise trading shares ("**tipping**").

12. AGENTS, CONSULTANTS AND SERVICE PROVIDERS

The Company requires its agents, consultants and service providers to act in a manner consistent with this Code in providing services to the Company. As such, persons retaining or hiring such service providers must consider and be satisfied that the reputations and business practices of such agents, consultants and contractors are in alignment with this Code. Where appropriate, background and reference checks on service providers should be performed.

If reasonable and appropriate, efforts should be made to draft agreements with agents, consultants and service providers that include terms requiring compliance with this Code and providing for remedies, including termination, for failure to comply. Where such provisions exist and there is a breach of the Code, the appropriate remedies should be enforced against the agent, consultant or service provider.

13. DUTIES WITH RESPECT TO REPORTING

Directors, officers and employees have a duty to immediately report to management any activity that:

- a) he or she believes contravenes the law;
- b) represents a breach of this Code or a real or apparent conflict of interest;
- c) represents a misuse of the Company's funds or assets; or
- d) represents a danger to the health and safety of our employees, contractors or public, or to the environment; and
- e) are also responsible for helping to identify and raise potential issues before they lead to Code violations.

If a director, officer or employee finds him or herself in a conflict or potential conflict of interest, or in violation of the Code, their duties are as follows:

- a) If the individual involved is an officer or an employee:
 - i. The individual must immediately notify his or her immediate superior.

- ii. If the conflict or violation cannot be avoided or resolved by the individual and his or her respective superior, the individual must advise the Audit Committee.

b) If the individual involved is a director:

- i. The individual must immediately notify the Chairman of the Board of Directors.
- ii. If the conflict or potential conflict cannot be avoided or resolved, the director must disclose the conflict or potential conflict to all of the directors of the Company and abstain or recuse themselves, as the case may be, from any vote or meeting in connection with the subject of the conflict.

Directors, officers and employees shall act in good faith in reporting a suspected Code violation or a situation that may create a potential for a Code violation and shall not take or tolerate any act of reprisal or retaliation against:

- i. a person who in good faith reports a suspected Code violation or a situation that may create a potential for a Code violation; or
- ii. a person who cooperates with the investigation of a suspected Code violation or a situation that may create a potential for a Code violation.

14. REPORTING

The Company promotes an open and honest environment and encourages directors, officers and employees to address any questions they may have regarding a particular situation or concerns about a possible violation of a law, regulation or the Code promptly with management. Except with respect to self-reporting referred to in Article 13 above, if for some reason an individual is not comfortable doing so or if management does not resolve the matter, reports of potential or actual violations of law or this Code may be made in confidence using the following methods:

- a) By e-mail to the Audit Committee Chair
- b) By mail, addressed to the Audit Committee Chair at address of the Company

While we encourage all individuals to identify themselves to facilitate a proper investigation, it is not required to do so and an individual may make a report anonymously.

15. INTERNAL AUDITS AND INVESTIGATING REPORTS OF SUSPECTED CODE VIOLATIONS

All suspected Code violations, or potential Code violations, will be investigated. The Audit Committee Chairperson and the Executive Chairman will decide on the most appropriate method of investigation in each instance and may seek the assistance of external legal advisors, accountants, or other advisors. To the extent possible, investigators will keep information and reports related to investigations confidential, subject to the need to conduct a full and impartial investigation, to comply with law and to remedy Code violations and monitor compliance.

Directors, officers and employees have a duty to cooperate with these investigations.

16. WAIVER OF THE CODE

Any waiver of this Code for the benefit of a director or executive officer may be granted only by the Board of Directors of the Company, or a committee of the Board duly authorized to do so. For non-executive officers, the Executive Chairman may, in appropriate circumstances as he or she determines using best judgment, waive a conflict or violation of the Code, however any such waivers must be reported to the Audit Committee at its next meeting.

Any waivers granted to a member of the Board of Directors or to an executive officer that relates to any element of the “code of ethics” set forth in Section 406(c) of the Sarbanes-Oxley Act of 2002, will be disclosed as required by law or stock exchange regulations applicable to the Company. Those who fail to cooperate with investigations will be subject to discipline, which may include termination of employment.

17. VERIFICATION OF THE CODE

The Company will make the most current version of the Code available to new directors, officers and employees at or about their time of hire and require such persons to verify they have read and understand the Code. In addition, the Company may require directors, officers and employees to periodically review the current version of the Code and verify their compliance with and understanding of the Code. Any director, officer or employee who fails or refuses to review the Code and to respond to a verification request by the Company may be subject to disciplinary measures up to and including termination.

The Code will be publicly available on the Company's website at www.kwesst.com.

Adopted by the Board on December 20, 2024.

KWESST MICRO SYSTEMS INC.
INFORMATION DISCLOSURE POLICY

1. Adoption

This policy (the “**Policy**”) was approved by the Board of Directors (the “**Board**”) of KWESST Micro Systems Inc. (the “**Corporation**”) on December 20, 2024.

2. Purpose

It is the policy of the Corporation and all of its subsidiaries that all Material Information (as defined below) relating to the Corporation be disclosed to the investing public in a timely, factual and accurate fashion and that the Corporation’s directors, executive officers (corporate officers and all Vice-Presidents) and each of their direct reports; the staff of the financial, accounting, legal and investor relations departments; and any other employee(s) or consultants (including any consultants performing investor relations services) who have knowledge of material undisclosed information (collectively, “**Corporate Actors**”) conduct themselves in accordance with applicable legal and regulatory requirements. For the purposes of the policy, a “**trade**” shall have the meanings ascribed to it pursuant to the *Securities Act* (Ontario).

3. Responsibility

- (a) **Individual Responsibility.** Every officer, director, employee or consultant of the Corporation and any other Corporate Actor will be held responsible for their compliance with this Policy. The individual who breaches this Policy may find himself or herself personally exposed to a wide range of penalties, fines and penal sanctions as well as civil actions for damages and administrative sanctions, by securities commissions and other regulatory bodies. Breaches of this Policy by employees may also expose the Corporation to regulatory and civil actions and the censure of the investing public.

If appropriate, the Corporation will report violations of this Policy to the appropriate regulatory authorities and will assist such authorities in investigating, and even prosecuting, violations of this Policy by the Corporation’s directors, officers, employees and consultants.

- (b) **Disclosure Committee.** The Corporation has created an operational committee (the “**Disclosure Committee**”) consisting of the Chairman of the Board (the “**Chairman**”) and Chief Financial Officer (“**CFO**”) (collectively, the “**Designated Officers**”) who shall be responsible for ensuring that the Corporation complies with this Policy and that Corporate Actors are familiar with its contents. The composition of the Disclosure Committee may change from time to time and the Corporation will advise all persons to whom this Policy applies of any such changes. The functions of the Disclosure Committee may be effected by any member of the Disclosure Committee and where a person is required hereunder to report to the Disclosure Committee, he or she may report to any one member of the Disclosure Committee.
- (c) **Board Oversight.** Subject to the Audit Committee’s responsibility in relation to financial disclosure as set out in the Audit Committee Charter, the Compensation and Corporate Governance Committee shall have general oversight over the adherence by the Corporation to the terms of this Policy and the adequacy of this Policy in light of changes to the Corporation’s circumstances and regulatory environment.
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The Human Resources and Governance Committee shall annually review the substance of this Policy and recommend any necessary changes to the Board of Directors.

4. Review of Disclosure.

- (a) **Basic Rule.** Every written public disclosure relating to or concerning the Corporation provided to third parties (including the general public) by a Corporate Actor shall be reviewed and approved by the Disclosure Committee.

In the event that one of the Designated Officers is unavailable during the requisite time period, the written disclosure shall be reviewed and approved by one of the Designated Officers and one other senior officer of the Corporation.

With regard to financial press releases, the Audit Committee will review and approve all press releases recommended by the Disclosure Committee, and then circulate them to the Board for further approval; provided that if no objection is received from any member of the Board within a reasonably short period of time (i.e., a few hours), the release will be deemed approved.

With regard to “non-financial” press releases, the Board will review them for approval; provided that if no objection is received from any member of the Board within a reasonably short period of time (4 hours) the release will be deemed approved.

- (b) **Disagreements and Ambiguities.** In the event there is a disagreement between the two officers reviewing written disclosure, or if there is any uncertainty on the part of either of the officers as to whether information should be disclosed or when a material change has occurred, such question shall be referred to the Corporation’s regular corporate counsel.
- (c) **Financial Matters.** Notwithstanding Section 4(b), if a disagreement or ambiguity relates to the financial reporting obligations of the Corporation, the issue shall be raised with the Audit Committee (which, if it wishes, may seek the assistance of legal counsel or the Corporation’s auditors).

5. Disclosure of Material Information

- (a) **What is Disclosed?** The Corporation shall, subject only to the provisions relating to confidentiality described in Section 6, disclose all Material Information in accordance with applicable securities laws. “**Material Information**” is any information relating to the business, operations or capital of the Corporation that would reasonably be expected to have a significant effect on either the market price or the value of, any of the securities of the Corporation. The Disclosure Committee, in consultation with the board of directors and others as appropriate shall determine what is deemed to be material information and the appropriate public disclosure.
- (b) **When is Material Information Disclosed?** Subject to Confidential Material Information, which shall be disclosed in accordance with Section 6, Material Information shall be disclosed in accordance with the provisions of this Section 5.

A change in Material Information (which must be reported immediately) shall be deemed to occur: (i) when a decision to implement the change is made by the Board of Directors of the Corporation; or (ii) the decision is made by senior management of the Corporation in the belief that confirmation of the decision by the Board of Directors is probable.

Disagreements or uncertainty as to whether a change of Material Information has occurred shall be resolved in accordance with Section 4(b).

(c) **Principles of Disclosure.** The following principles shall be observed by the Corporation in disseminating changes in Material Information:

- (i) Changes in Material Information shall be disclosed by way of a press release disseminated through a newswire service approved by the Corporation's corporate counsel. Any such press release shall be filed on SEDAR.
 - (ii) If Material Information is to be announced at an analyst or a shareholders meeting or a press conference, conference call or webcast, its announcement must be coordinated with a general public announcement by news release.
 - (iii) If it appears that there will be significant delays in issuing a press release, whether occasioned by the Corporation or a third party, the issue of the delay shall be raised with the Corporation's corporate counsel and, if necessary, Market Regulation Services to determine whether trading in the Corporation's shares should be halted pending release of the Material Information.
 - (iv) A news release containing the Material Information may be sent to Market Regulation Services for its review prior to dissemination of the news release, if determined necessary by the Designated Officers.
 - (v) The Corporation will not, except in exceptional circumstances, delay a news release containing changes in Material Information because of a need for third party approval. In those exceptional circumstances, the Corporation shall follow the procedure for disseminating confidential information described in Section 6.
 - (vi) News releases describing Material Information shall be posted on the Corporation's website following their dissemination by newswire and filing on SEDAR.
 - (vii) Disclosure should not contain half-truths or any information which requires additional information not to be misleading.
 - (viii) The Corporation shall disclose unfavourable Material Information as promptly and completely as it discloses favourable Material Information.
 - (ix) Material Information that has been disclosed must be updated if earlier disclosure has become misleading due to subsequent events.
 - (x) Previously undisclosed information must not be disclosed to selected third parties. Disclosure must first (or concurrently) be made to the general public.
 - (xi) The Corporation will not comment, affirmatively or negatively on rumors unless required by Market Regulation Services, or the TSX Venture Exchange (or such other exchange upon which the Corporation's shares may trade) (the "Exchange") or such other securities regulatory authority requires the Corporation to make a statement in response to a market rumor.
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- (xii) In addition to issuing a news release as set out herein, changes to Material Information shall be reflected in a material change report and filed on SEDAR within the time frame required under applicable securities laws. Material contracts outside of the Corporation's ordinary course of business shall be filed on SEDAR as required under applicable securities laws.

6. Disclosure of Confidential Material Information

- (a) **General.** Securities legislation permits the Corporation to delay disclosure of a change of Material Information and to keep it confidential temporarily, when immediate release of the information would be unduly detrimental to the Corporation's interests. This can arise, for example, when immediate disclosure might interfere with the Corporation's pursuit of a specific objective or strategy, with ongoing negotiations, or with its ability to complete a transaction.
- (b) **Determining When to Keep Changes Confidential.** The test provided by Canadian securities regulators is that changes to Material Information may be kept confidential when harm to the Corporation's business from disclosing outweighs the general benefit to the market of immediate disclosure. A factor in this test is whether there is reasonable likelihood of market participants, not subject to obligations of confidentiality, becoming aware of the change in Material Information before it is disseminated in accordance with Section 5.

Any question as to whether it is appropriate for a change in Material Information to be kept confidential shall be resolved as set out in Section 4(b).

- (c) **Procedure.** If the Designated Officers of the Corporation determine in accordance with this Policy that it is appropriate for a change or pending change in Material Information to be kept confidential, the Corporation shall file a confidential material change report with the appropriate securities commissions as required under applicable securities laws. This confidential filing, and the Corporation's evaluation of the need for confidentiality, must be renewed every ten (10) days, if the Corporation wants the change in Material Information to remain confidential as required under applicable securities laws.
- (d) **Leaks.** One of the Designated Officers or a person nominated by him shall, during the period the Corporation has confidential Material Information, carefully monitor market activity in the Corporation's securities. If the confidential Material Information, or rumours about it, have leaked or appear to be impacting the Corporation's share price, the Corporation will review the situation and may be required to immediately disclose the confidential Material Information in accordance with Section 5.

7. Forward Looking Information

- (a) **General Policy.** It is the Corporation's policy not to provide earnings guidance to the public or to persons, such as analysts, whose work is to make the results of such guidance available to the public.
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When reviewing analysts' reports, comments of directors, officers, employees and agents must be limited to identifying factual information that has been generally disclosed to the public. Any comments must contain a disclaimer that the report was reviewed for factual accuracy only. No comfort or guidance shall be expressed on the analysts' earnings models or earnings estimates and no attempt shall be made to influence an analyst's opinion or conclusion.

- (b) **Forward Looking Information Generally.** Forward-looking information (financial or otherwise) may be provided to market participants if it is general and does not touch upon material, bottom-line financial results and is accompanied by the following:
- (i) The information is clearly identified as forward-looking;
 - (ii) The Corporation identifies all material assumptions in the forward-looking information;
 - (iii) The forward-looking information is expressed as clearly conditional;
 - (iv) The information is accompanied by a statement that identifies, in very specific terms, the factors that may cause the actual results to differ materially from those projected in the statement, and puts market participants on notice that they should not rely on such forward-looking statements. The factors should be represented with a reasonably possible range of outcomes, a sensitivity analysis or other qualitative analysis that will assist in assessing the related risks;
 - (v) Officers are aware at the time they make forward-looking statements that, if material, those statements will need to be publicly revised or corrected if subsequent events make them misleading; and
 - (vi) The forward-looking information, if financial in nature, either refers to performance in the next quarter, or has been approved for dissemination by the Audit Committee.

8. Selective Disclosure and Tipping

- (a) **What is Selective Disclosure or Tipping?** Securities legislation prohibits Corporate Actors from providing undisclosed Material Information to third parties, other than in the necessary course of business. The prohibition applies whether the Corporation or the person providing selective disclosure gains a benefit from the disclosure or not.

Disclosure in the "necessary course of business" may include:

- (i) disclosure to vendors, suppliers, or strategic partners on issues such as research and development, sales and marketing, and supply contracts;
 - (ii) disclosure to employees, officers and board members;
 - (iii) disclosure to lenders, legal counsel, auditors, underwriters, and financial and other professional advisors to the Corporation;
 - (iv) disclosure to parties to significant negotiations;
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- (v) disclosure to industry associations;
 - (vi) disclosure to government agencies and non-governmental regulators;
 - (vii) disclosure to credit rating agencies (provided that the information is disclosed for the purpose of assisting the agency to formulate a credit rating and the agency's ratings generally are or will be publicly available);
 - (viii) disclosures in connection with a private placement; and
 - (ix) communications with controlling shareholders, in certain circumstances
- (b) **General Prohibition.** No Corporate Actor shall engage in selective disclosure. Any question of whether anticipated disclosure is in the necessary course of business shall be determined by the Disclosure Committee.
- (c) **Inadvertent Selective Disclosure.** In the event a Corporate Actor inadvertently discloses Material Information to a market participant that has not been generally disseminated, the Corporate Actor shall immediately report the selective disclosure to the Disclosure Committee and the Corporation shall immediately disclose the Material Information in question in accordance with Section 5 or Section 6. Pending the material being generally disclosed, the Corporation shall contact the parties to whom the Material Information was disclosed and inform them (i) that the information is undisclosed Material Information; and
- (ii) of their legal obligations with respect to the Material Information.
- (d) **Equality of Treatment.** It is understood that in individual or small-group communications, certain non-Material Information may be provided that has not been generally disclosed to the public. Such information, usually supplied in response to the questions of analysts or other investors, must be provided to any person who makes similar inquiries of the Corporation. Market participants shall be treated equally by Corporate Actors with respect to non-Material Information.

9. Prohibition on Certain Uses of the Internet

All Corporate Actors are prohibited from disclosing Corporate information, whether it is material or not, in Internet chat rooms, newsgroups, blogs or the website of any third party. Corporate Actors should advise a member of the Disclosure Committee if they are aware of any discussion of information of the Corporation in a chat room, newsgroup or bulletin board.

10. Maintaining Confidential Information

- (a) **Corporate Information.** Corporate Actors are reminded that they have common law and/or contractual duties prohibiting them from releasing any information not generally known concerning the Corporation or its affairs, other than as is necessary to discharge their responsibilities to the Corporation. This Policy relies upon Corporate Actors adhering to their duties in this regard.
- (b) **Third Party Information.** The Corporation is generally under contractual and common law duties with respect to confidential information it receives from various third parties such as its customers, suppliers, or business partners. This third party information shall be kept confidential by Corporate Actors. In particular, Corporate Actors should take the same measures with respect to the confidential information of third parties as they take with respect to confidential information of the Corporation.
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- (c) **Procedures To Prevent Disclosure.** While not intended to be comprehensive, the following are basic rules that should be followed to preserve the confidential information of the Corporation and third parties:
- (i) Confidential papers or electronic media should have “CONFIDENTIAL” or a stronger term clearly written or stamped on them.
 - (ii) Documents and files, including electronic files, should be kept in a safe place to which access is restricted to individuals who need to know the information for the purpose of carrying out their responsibilities on behalf of the Corporation.
 - (iii) Confidential matters should not be discussed in places where the discussion may be overheard such as elevators, hallways, restaurants, airplanes or taxis.
 - (iv) Confidential information should not be read or displayed in public places and should not be discarded where others can easily retrieve them.
 - (v) Transmission of documents by electronic means, such as by fax or directly from one computer to another, should be made only when it is reasonable to believe that the transmission can be made or received under secure conditions.
 - (vi) Unnecessary copying of documents containing undisclosed material information must be avoided and extra copies of documents must be promptly removed from meeting rooms and work areas at the conclusion of the meeting and must be destroyed if no longer required.

11. Insider Reports

Reporting of Trades by Insiders. Securities legislation defines certain parties as “Reporting Insiders”, and Reporting Insiders are required to prepare and file a report of every trade they make in securities of the Corporation. This includes the granting and exercise of stock options or any other rights to acquire securities. Reporting Insiders are personally responsible for ensuring that insider reports are filed within five (5) days of the trade. Assistance with filing these reports on the SEDI website may be obtained from the CFO and/or the Corporate Secretary. The consequence of being a Reporting Insider is that they are required to file insider trading reports for every transaction they make involving securities of the Corporation, which includes the grant or exercise of stock options.

12. Trading Restrictions

- (a) **Prohibition on Trading on Inside Information.** Corporate Actors shall not trade while in possession of Material Information that has not been publicly disclosed to the market. This includes trades that apparently run counter to the Material Information in question, such as selling shares while in possession of positive undisclosed Material Information.
 - (b) **Trading on Third Party Information.** Corporate Actors shall not trade in the securities of third party companies when they are in possession of undisclosed Material Information concerning those third party companies that has been received by the Corporate Actor in the course of their employment with the Corporation.
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- (c) **Related Parties.** The prohibition on trading on inside information contained in Sections 12(a) and (b), applies not just to a Corporate Actor but to any parties related to that person, including friends, spouses, children and other family members. In this regard, Corporate Actors are reminded of their obligations of confidentiality and the prohibition on selective disclosure and tipping set out in Sections 8 and 10.
 - (d) **Press Release Blackout Period.** Following dissemination of a news release containing Material Information, no Corporate Actor shall trade in the securities of the Corporation until the day on which the Exchange is open for trading after dissemination.
 - (e) **Financial Blackout Periods.** No Corporate Actor shall trade in the Corporation's securities during the period beginning on the date that is: (i) seventy five (75) days after the last day of the reporting year; or (ii) thirty (30) days after the last day of the month of the reporting quarter, and, in either case, ending the day on which the Exchange is open for trading after publication. Such publication will be deemed effected on dissemination of such results by news release or filing on SEDAR, whichever is earlier. Notwithstanding the foregoing, the Board may by resolution allow trades within such blackout period provided the Board determines, to the best of its knowledge, that such trade or trades are: (i) in compliance with insider trading or similar restrictions pursuant to securities laws applicable to the Corporation and the Corporate Actors; (ii) in compliance with blackout period restrictions and insider rules of every stock exchange on which the Corporation's shares are listed; and (iii) not made at such time as there is material undisclosed information in respect of the Corporation available to any Corporate Actor.
 - (f) **Occasional Blackout Period.** From time to time, the Corporation will be engaged in material transactions or contemplating a potential material transaction that would give rise to concerns if a Corporate Actor traded during this period, even if the Corporate Actor was unaware of the pending or potential change in Material Information.
 - (g) In these circumstances, it is the duty of the officer or director aware of this pending or potential change to advise a Designated Officer who, in turn, must determine whether a Corporation-wide blackout period should be imposed. Differences of opinion or ambiguities are to be resolved as set out in Section 4(b). If a company-wide blackout is decided upon, an email to this effect and specifying the blackout period shall be sent by a Designated Officer to all Corporate Actors.
 - (h) **Pre-Clearance of Trades.** All Corporate Actors intending on trading in the Corporation's securities, including the exercise of stock options, shall so inform the Designated Officers to ensure that there is no blackout period in effect or pending undisclosed Material Information. A Corporate Actor that wants to trade shall send e-mail correspondence of an intention to trade and shall not trade until either: (i) one of the Designated Officers has provided e-mail advice back that a trade is permitted; or (ii) one (1) day shall have elapsed since the email correspondence of an intention to trade. If a Corporate Actor is advised they cannot trade, care must be taken by such Corporate Actors when communicating their inability to trade to a third party such as their broker or financial advisor who may have solicited the trade. Corporate Actors must not disclose any information as to why they cannot trade.
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- (i) **Relief from this Section.** In exceptional circumstances, a Corporate Actor may be permitted to trade securities of the Corporation and relief may need to be sought from the Exchange.

13. Public Communications

- (a) **What are Public Communications?** For the purpose of this section, “**Public Communications**” include all press releases, material change reports, financial statements, annual information forms, information circulars, other legislative or regulatory disclosure documents, conference calls, shareholder meetings, analyst meetings, telephone calls to or from shareholders or other market participants, emails to or from shareholders or other market participants, as well as any other means by which the Corporation provides information to participants or potential participants in the market for the Corporation’s securities.
- (b) **Who is Authorized to Make Public Communications?** Only the Chief Executive Officer, the CFO and the Chairman of the Board of Directors are authorized to make or approve Public Communications. Any speaking engagement by an employee, officer or director of the Corporation that falls under the definition of Public Communications as defined below must have prior approval from one of the Designated Officers. They may delegate this responsibility in certain circumstances to other employees, directors or agents, but the Designated Officers are responsible for reviewing the form and substance of the proposed Public Communication.

The Disclosure Committee may not delegate responsibility for reviewing and approving formal disclosure documents required by Canadian securities legislation or policies, other than press releases which will be handled as set out in subsection 4(a).

- (c) **Communication with Analysts.** Only a Designated Officer or a person designated in writing by one of them may communicate with analysts. The Corporation’s policy with respect to interactions with analysts are as follows:
 - (i) selective disclosure must be avoided pursuant to Section 8;
 - (ii) no information may be provided to analysts that will not be provided to any person who makes similar inquiry pursuant to Section 8(d);
 - (iii) Corporate Actors shall not become involved in approving or influencing analyst opinions or conclusions, aside from merely correcting factual errors, provided that such corrections are based on non-Material Information or Material Information that has been publicly disseminated; and
 - (iv) no Corporate Actor shall distribute analyst reports to persons outside the Corporation or publicly endorse such a report.
 - (d) **Quiet Periods.** During a blackout period the Corporation shall not engage in discussions with analysts, investors or other market participants, except (i) where, in the course of such discussions, only information that has been in the public domain for at least 24 hours is imparted by the Corporation; (ii) where each party to such discussions (other than the Corporation) is acting in its capacity as a professional advisor; and (iii) in exceptional circumstances.
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14. Electronic Communications

The policies contained herein also apply to electronic communications. Electronic communications include electronic mail, websites, the Internet and the System for Electronic Document Analysis and Retrieval (“**SEDAR**”).

15. Website

- (a) **General Rule.** The Corporation’s website should not contain any disclosure that would, whether through website architecture, overt statement or omission, materially misrepresent the Corporation, its business prospects or financial status. Disclosure of material information on the website does not constitute general public disclosure and is not adequate disclosure of material information.

The Disclosure Committee must ensure that material information is disseminated to all required securities regulators and generally disclosed to the public before any disclosure is made on the website.

All publicly filed documents, including news releases, should be included on the website as soon as practicable after such material has been accepted for filing or posted on SEDAR. The website should have a notice advising the reader that the information that is posted is accurate at the time of posting but that the Corporation specifically disclaims any intention or responsibility to update this information and it may be superseded by subsequent disclosures. All disclosure posted to the website should show the date such material was issued or the date it is subsequently amended.

- (b) **Regular Review.** The Disclosure Committee or an employee delegated by the Disclosure Committee shall review the Corporation’s website every quarter to ensure that disclosure on the website is accurate, complete and up to date. **Links to Third Party Sites.** Unless approved by the Disclosure Committee, the Corporation’s website may not link to a third party website. In the event such a link is permitted, it should include a notice that advises the reader that they are leaving the website and that the Corporation is not responsible for the contents of the other site.
 - (c) **Analyst Reports.** The Corporation may provide on its website a list of all (and only all) of the investment firms that provide coverage of the Corporation, along with relevant contact information. The Corporation may not, however, provide links to those firms or the analyst reports themselves.
 - (d) **Investor Relations Material.** Investor relations material shall be contained within a separate section of the Corporation’s website and will include a notice that advises the reader that the information posted was accurate at the time of posting, but may be superseded by subsequent disclosures. All data posted to the website, including text and audiovisual material, shall show the date such material was issued.
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CERTIFICATION REQUIRED BY RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Sean Homuth, certify that:

1. I have reviewed this annual report on Form 20-F of DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) (the "Issuer");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Issuer as of, and for, the periods presented in this report;
4. The Issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Issuer's internal control over financial reporting.
5. The Issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Issuer's auditor and the audit committee of the Issuer's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Issuer's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Issuer's internal control over financial reporting.

Date: December 29, 2025

By: /s/ Sean Homuth

Sean Homuth
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION REQUIRED BY RULE 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Jennifer Welsh, certify that:

1. I have reviewed this annual report on Form 20-F of DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) (the “Issuer”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Issuer as of, and for, the periods presented in this report;
4. The Issuer’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Issuer’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Issuer’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Issuer’s internal control over financial reporting.
5. The Issuer’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Issuer’s auditor and the audit committee of the Issuer’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Issuer’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Issuer’s internal control over financial reporting.

Date: December 29, 2025

By: /s/ Jennifer Welsh

Jennifer Welsh
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) (the "Company") on Form 20-F for the period ended September 30, 2025 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sean Homuth, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

December 29, 2025

/s/ Sean Homuth

Sean Homuth
Chief Executive Officer
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to DEFSEC Technologies Inc. and will be retained by DEFSEC Technologies Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) (the “Company”) on Form 20-F for the period ended September 30, 2025 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jennifer Welsh, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in this Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

December 29, 2025

/s/ Jennifer Welsh

Jennifer Welsh

Chief Financial Officer

(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to DEFSEC Technologies Inc. and will be retained by DEFSEC Technologies Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Consent of Independent Registered Public Accounting Firm

The Board of Directors
DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.)

We consent to the use of our report dated January 17, 2024, except for Note 1(c) as to which the date is October 25, 2024, on the consolidated financial statements of DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) (the "Company") which comprise the consolidated statements of net loss and comprehensive loss, shareholders' equity (deficit), and cash flows for the year ended September 30, 2023, and the related notes, included in the Annual Report on Form 20-F of the Company for the fiscal year ended September 30, 2025.

We also consent to the incorporation by reference of such report in the Registration Statements on Form F-3 (File Nos. 333-277196, 333-281960, 333-283343 and 333-285263) of the Company.

We also consent to the reference to our firm under the heading "Experts" in the Registration Statements.

/s/ KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

December 29, 2025
Ottawa, ON Canada

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent the use of our auditor's report dated December 29, 2025 with respect to the consolidated financial statements of DEFSEC Technologies Inc. (the "Company") and its subsidiaries as at September 30, 2025 and 2024 and for each of the years in the two year period ended September 30, 2025, included in the Annual Report on Form 20-F of the Company, for the year then ended September 30, 2025, as filed with the United States Securities Exchange Commission.

We also consent to the incorporation by reference of such report in the Registration Statements on Form F-3 (File Nos. 333-285263, 333-283343, 333-281960, 333-277196) of the Company.

/s/ MNP LLP

Chartered Professional Accountants;
Licensed Public Accountants

December 29, 2025

December 29, 2025

Securities and Exchange Commission
Washington, D.C. 20549

Ladies and Gentlemen:

We were previously principal accountants for DEFSEC Technologies Inc. (formerly KWESST Micro Systems Inc.) (“the Company”) and, under the date of January 17, 2024, except for Note 1(c) as to which the date is October 25, 2024, we reported on the consolidated financial statements of the Company as of and for the year ended September 30, 2023. On May 15, 2024, we resigned.

We have read the Company’s statements included under Change in Company’s Certifying Accountant of its Annual Report on Form 20-F dated December 29, 2025, and we agree with such statements.

Very truly yours,

/s/ KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

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