



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

For the year ended September 30, 2025

December 29, 2025

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

All references in this management's discussion and analysis (the "MD&A") to "DEFSEC", "we", "us", "our", and the "Company" refer to DEFSEC Technologies, Inc. and its subsidiaries as at September 30, 2025. This MD&A has been prepared with an effective date of December 29, 2025.

This MD&A should be read in conjunction with our audited consolidated financial statements for the year ended September 30, 2025 ("Fiscal 2025 FS"). The financial information presented in this MD&A is derived from these audited consolidated financial statements prepared in accordance with IFRS® Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A contains forward-looking statements that involves risk, uncertainties and assumptions, including statements regarding anticipated developments in future financial periods and our future plans and objectives. There can be no assurance that such information will prove to be accurate, and readers are cautioned not to place undue reliance on such forward-looking statements. See "Forward-Looking Statements".

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

Additional information, including press releases, relating to DEFSEC Technologies Inc. is available for view on SEDAR+ at <http://www.sedarplus.ca/> and EDGAR (<https://www.sec.gov>).

NON-IFRS MEASURES

In this MD&A, we have presented earnings before interest, taxes, depreciation and amortization ("EBITDA") and EBITDA that has been adjusted for the removal of share-based compensation, foreign exchange loss (gain), change in fair value of derivative liabilities, and any one-time, irregular and nonrecurring items ("Adjusted EBITDA") to provide readers with a supplemental measure of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures.

Management also references "program billings on an annualized go-forward basis" and "annualized gross margin contribution" which refers to programmatic revenue and gross margin based on the roles staffed for a full year at the program billing rate. Management believes these are useful measure because it reflects management's estimate of annualized revenues and gross margin contributions based on current contractual taskings as of the date referenced. 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 and gross margin respectively.

Management uses non-IFRS measures, in addition to IFRS financial measures, to understand and compare operating results across accounting periods, for financial and operational decision making, for planning and forecasting purposes, and to evaluate our financial performance. We believe that these non-IFRS financial measures enable us to identify underlying trends in our business that could otherwise be hidden by the effect of certain expenses that we exclude in the calculations of the non-IFRS financial measures.

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

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

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

GOING CONCERN

As an early-stage company, we have not yet reached significant revenue levels for most of our products and services and have incurred significant losses and negative operating cash flows from inception that have primarily been funded from financing activities. DEFSEC's audited consolidated financial statements for Fiscal 2025 have been prepared on the "going concern" basis which presumes that DEFSEC will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. 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. Refer to Note 2(a) of the Fiscal 2025 audited consolidated financial statements for further information.

TRADEMARKS

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

FORWARD-LOOKING STATEMENTS

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

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

- our expectations regarding our business, financial condition and results of operations;
- the future state of the legislative and regulatory regimes, both domestic and foreign, in which we conduct business and/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

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

- expectations regarding future developments of products and our ability to bring these products to market.

Forward-looking statements are based upon a number of assumptions and are subject to a number of risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, the following risk factors, some of which are discussed in greater detail under the section “*Risk Factors*” in our 20-F dated December 29, 2025:

- 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;
- 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;

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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

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

BUSINESS OVERVIEW

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:

DIGITIZATION

Software for real-time situational awareness



NON-LETHAL

Products for professional and consumer markets



COUNTER-THREAT

Sensors and software against lasers and EW



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 ("TSAS"). 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.

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

- 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;
- Battlefield Laser Detection System (“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 defense 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
<p>PARA SHOT™ products:</p> <p><i>Non-reciprocating devices:</i></p> <ul style="list-style-type: none"> • A single-shot device • A five-shot device • 12-gauge shotgun (<i>planning stage; not yet industrialized</i>) <p><i>Reciprocating devices</i> (<i>Planning stage, not yet commercially available</i>)</p> <ul style="list-style-type: none"> • Replica pistol • AR style rifle <p><i>Cartridge</i></p> <ul style="list-style-type: none"> • Blunt / training • Inert marking powder • Irritant powder <p>ARWEN® products:</p> <ul style="list-style-type: none"> • Single shot 37mm launcher • Multi-round 37mm launcher • Baton blunt impact 	<p>Products:</p> <ul style="list-style-type: none"> • TASCS Indirect Fire Modules System (“TASCS IFM”) • TASCS Networked Observation and Reconnaissance System (“TASCS NORS”) • New T-SAS Tactical Surveillance and Sniper system (“T-SAS™”) <p>Services:</p> <ul style="list-style-type: none"> • ATAK Centre of Excellence • Lightning SaaS for Critical Incident Management System (“CIMS”) (<i>not yet commercially available</i>) • Task-order based software services on long-term government defence contracts 	<p>Products:</p> <ul style="list-style-type: none"> • Battlefield Laser Detection Systems (“BLDS”) • Phantom Electronic Warfare device

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

<ul style="list-style-type: none"> • 37mm, and 40mm (<i>final stages of commercialization</i>) • 37mm Chemical, irritant, and barricade-penetrating rounds • PARA SHOT™ training adapter for ARWEN Platform (<i>in final stages of commercialization</i>) 		
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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 Bureau of Alcohol, Tobacco and Firearms (“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.

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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.

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 the 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.

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025



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.

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 SHOTTM – single shot device⁽⁵⁾	Completed	Completed	Q3 FY23 – Ongoing	Ongoing	Q1-Q2 FY26
PARA SHOTTM – Pro 5 Magnum⁽⁵⁾	Completed	Completed	Q3 FY23 – Ongoing	Q2-Q3 FY 2026	FY26
PARA SHOTTM – 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 LightningTM	Ongoing	Ongoing	Q1 FY26	Q1 FY26	FY26

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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.

Major Highlights – Year ended September 30, 2025 ("Fiscal 2025")

The following is a summary of major highlights that occurred during Fiscal 2025:

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

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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.

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.

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

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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 April 2025 Reverse Split. The April 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.

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 "July 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

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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 Directorate Land Command Systems Program Management Software Engineering Facility 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, we 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 will issue 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.

¹ Unaudited, non-IFRS measure.

² See Consolidated Financial Statements of DEFSEC Technologies Inc. for the years ended September 30, 2024, 2023 and 2022 filed on the Company's SEDAR+ profile at <https://sedarplus.ca/>

³ Unaudited, non-IFRS measure.

⁴ Unaudited, non-IFRS measure.

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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".

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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\$8.8¹ 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.

¹ Unaudited, non-IFRS measure.

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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;
- a \$1.3 million increase in share issuance costs incurred during the year related to the November 1, 2025 financing that was completed.

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.

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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 to 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
- 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.

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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)	<u>\$(2.70)</u>	<u>\$(3.69)</u>	<u>\$(6.16)</u>	<u>\$(23.94)</u>	<u>\$(59.33)</u>	<u>\$(27.30)</u>	<u>\$(127.66)</u>	<u>\$(149.10)</u>

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.

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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		
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.

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

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.

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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.

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.

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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

Cash used by operating activities

Cash flow used in operating activities decreased by \$1.1 million to \$8 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:

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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

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.

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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	\$ -

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.

RELATED PARTY TRANSACTIONS

Refer to Note 11 of the Fiscal 2025 audited consolidated financial statements for disclosure about DEFSEC's related party transactions conducted in the normal course of business.

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

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

Refer to Note 22 of the Fiscal 2025 audited consolidated financial statements for further disclosure our financial instruments.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Revenue

Revenue is recognized upon transfer of control of products or services to customers at an amount that reflects the transaction price 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.

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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.

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.

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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.

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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.

OUTSTANDING SHARE INFORMATION

At September 30, 2025, DEFSEC's authorized capital consists of an unlimited number of Common Shares with no stated par value. There were 1,396,321 outstanding and issued Common Shares as at September 30, 2025.

SUBSEQUENT EVENTS

On October 31, 2025, we 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.

On December 17, 2025, we 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. We intend to use the net proceeds from this Offering for working capital and general corporate purposes.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

As required by National Instrument 52-109 Certification of Disclosure in Issuers Annual and Interim Filings and Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, we have evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, 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 fiscal year. These DC&P are designed to provide reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized and reported on a timely basis.

Based upon the evaluation, our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded that our disclosure controls and procedures were effective as of September 30, 2025.

Management's Assessment on Internal Controls 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 Securities Exchange Act of 1934 (the "Exchange Act"), as amended, management is responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR"), The Company's

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

management, including the CEO and CFO, and 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.

Internal Controls over Financial Reporting (“ICFR”)

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, is responsible for establishing and maintaining adequate internal control over financial reporting, as defined under NI 52-109 in Canada and the Exchange Act, as amended, in the United States, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with IFRS® Accounting Standards.

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 Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on this assessment, management has concluded that the Company’s internal control over financial reporting 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.

RISK FACTORS

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

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

Risks Relating to Our Business

We are an early-stage company.

We are an early-stage company and as such, we are subject to many risks including under-capitalization, cash shortages, and limitations with respect to personnel, financial and other resources and the lack of revenue. There is no assurance that we will be successful in achieving a return on shareholders’ investment and the likelihood of success must be considered in light of our early stage of operations. Our prospects must be considered speculative in light of the risks, expenses, and difficulties frequently encountered by companies in their early stages of operations, particularly in the highly competitive and rapidly evolving markets in which we operate. To attempt to address these risks, we must, among other things, successfully implement our business plan, marketing, and commercialization strategies, respond to competitive developments, and attract,

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

retain, and motivate qualified personnel. A substantial risk is involved in investing in us because, as a smaller commercial enterprise that has fewer resources than an established company, our management may be more likely to make mistakes, and we may be more vulnerable operationally and financially to any mistakes that may be made, as well as to external factors beyond our control.

We currently have negative operating cash flows.

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

- progress of our manufacturing, licensing, and distribution activities;
- collaborative license agreements with third parties;
- opportunities to license-in beneficial technologies or potential acquisitions;
- potential milestone or other payments that we may make to licensors or corporate partners;
- technological and market consumption and distribution models or alternative forms of proprietary technology for game-changing applications in the military and homeland security market that affect our potential revenue levels or competitive position in the marketplace;
- the level of sales and gross profit;
- costs associated with production, 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 2024, 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.

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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.

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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.

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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.

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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.

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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 predicated 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

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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.

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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.

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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.

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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 document, 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.

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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;

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

- 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

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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.

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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.

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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.

**DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025**

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.

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

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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 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 Stock 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.

DEFSEC TECHNOLOGIES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2025

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.