



**Part II Organizational Action** (continued)


17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ See Attachment.

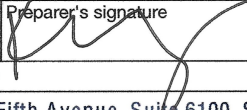
18 Can any resulting loss be recognized? ▶ See Attachment.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ See Attachment.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

**Sign Here**

Signed by:  Signature ▶ Kris Denis Date ▶ 12/6/2024  
A4133EB68F75487  
Print your name ▶ Kris Denis Title ▶ CFO and Chief Compliance

<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Kendall R. Fisher		<u>Dec 5, 2024</u>		P01980923
	Firm's name ▶ Dorsey & Whitney LLP	Firm's address ▶ Columbia Center, 701 Fifth Avenue, Suite 6100, Seattle, WA 98104		Firm's EIN ▶ 41-0223337	Phone no. (206) 903-8793

KWESST Micro Systems Inc.

Attachment to Form 8937-Part II

Report of Organizational Actions Affecting Basis of Securities (The Consolidation)

**Consult your own tax advisor:** The information contained herein is being provided pursuant to the requirements of Section 6045B of the Internal Revenue Code of 1986, as amended (the “Code”), and includes a general summary regarding the application of certain U.S. federal income tax laws and regulations relating to the effects of the Consolidation (as defined below) on the tax basis of common shares of KWESST Micro Systems Inc. (“KWESST”), a corporation organized under the laws of the Province of British Columbia, Canada, in the hands of holders of common shares of KWESST stock (“KWESST Shares”) who are U.S. taxpayers and who participated in the Consolidation (as defined below) (“U.S. Shareholders”). This discussion does not constitute tax advice and does not purport to be complete or to describe the consequences that may apply to particular categories of shareholders. KWESST does not provide tax advice to its shareholders. You should consult your own tax advisors regarding the particular consequences of the Consolidation to you, including the applicability and effect of all U.S. federal, state and local tax laws as well as non-U.S. tax laws.

For additional information, please read the Press Release of KWESST dated as of October 21, 2024 (the “Release”), which is available at [www.sedarplus.ca](http://www.sedarplus.ca).

**Part II Item 14. (Description of organizational action)**

On October 23, 2024, KWESST effected a reverse stock split (share consolidation) whereby it consolidated every ten (10) existing KWESST Shares into one (1) new KWESST Share (the “Consolidation”). No shareholder received a fractional KWESST Share pursuant to the Consolidation, as each fractional KWESST Share was either rounded up to the next nearest whole number of KWESST Shares if the fraction was at least half (0.5) of a KWESST Share or rounded down to the nearest whole number of KWESST Shares if the fraction was less than half (0.5) of a KWESST Share. No cash was received by any shareholder in lieu of a fractional KWESST Share pursuant to the Consolidation.

U.S. Shareholders should review the Release and consult with their own tax advisors regarding the tax consequences of the Consolidation to them in light of their own particular circumstances.

**Part II Item 15. (Description of the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer)**

KWESST intends that the deemed exchange by U.S. Shareholders of their existing KWESST Shares for new KWESST Shares pursuant to the Consolidation be treated for U.S. federal income tax purposes as a tax-deferred exchange under Code Section 1036 and/or a tax-deferred recapitalization under Code Section 368(a)(1)(E), but KWESST provides no assurances in this regard. Provided the Consolidation qualifies as a tax-deferred exchange under Code Section 1036 and/or Code Section 368(a)(1)(E), a U.S. Shareholder should have the same tax basis and holding period in such shareholder’s post-Consolidation KWESST Shares as such shareholder

had in its pre-Consolidation KWESST Shares exchanged therefor pursuant to the Consolidation, as adjusted for any whole KWESST Share received in lieu of a fractional KWESST Share or any fractional KWESST Share that was rounded down to the nearest whole KWESST Share, as applicable. However, U.S. Shareholders will be required to allocate the aggregate tax basis of each block of their KWESST Shares held immediately prior to the Consolidation among the KWESST Shares held immediately after the Consolidation, as adjusted for any whole KWESST Share received in lieu of a fractional KWESST Share or any fractional KWESST Share that was rounded down to the nearest whole KWESST Share, as applicable, such that the per-share tax basis in each post-Consolidation KWESST Share is equal to 1000% of the tax basis in a pre-Consolidation KWESST Share, as adjusted for any whole KWESST Share received in lieu of a fractional KWESST Share or any fractional KWESST Share that was rounded down to the nearest whole KWESST Share, as applicable.

Notwithstanding the foregoing, the U.S. federal income tax consequences of the receipt of an additional fraction of a KWESST Share are not clear. A U.S. Shareholder who receives one whole KWESST Share in lieu of a fractional KWESST Share may nevertheless recognize income or gain in an amount not to exceed the excess of the fair market value of such KWESST Share over the fair market value of the fractional KWESST Share to which such U.S. Shareholder was otherwise entitled.

Further, the U.S. federal income tax consequences are also not clear with respect to a fractional KWESST Share that has been rounded down to the nearest whole KWESST Share. Each U.S. Shareholder that would have received a fractional KWESST Share had such fractional KWESST Share not otherwise been rounded down to the nearest whole KWESST Share pursuant to the Consolidation should consult its own tax advisors regarding whether to allocate such U.S. Shareholder's aggregate tax basis in its KWESST Shares immediately prior to the Consolidation entirely to its KWESST Shares immediately after the Consolidation or, alternatively, whether such U.S. Shareholder should allocate a portion of such aggregate tax basis to the fractional KWESST Share which it would have received had its KWESST Shares not been rounded down to the nearest whole KWESST Share pursuant to the Consolidation and recognize a loss on such fractional KWESST Share equal to the tax basis so allocated.

If a U.S. Shareholder held different blocks of KWESST Shares (i.e., KWESST Shares acquired at different times or different prices) at the time of the Consolidation, such holder should consult its own tax advisor with respect to the determination of the tax bases of particular KWESST Shares held following the Consolidation.

If KWESST was a passive foreign investment Company (“**PFIC**”), as defined under Code Section 1297, for any tax year during which a U.S. Shareholder held its KWESST Shares, certain special PFIC rules may apply to the Consolidation subject to certain proposed Treasury Regulations that, if finalized in their current form, would apply to transactions on or after April 1, 1992 and that have not been adopted in final form (or withdrawn). U.S. Shareholders should review the Release and consult with their own tax advisors regarding the potential application of the PFIC rules including the potential application of the proposed PFIC Treasury Regulations.

Part II Item 16. (Description of the calculation of the change in basis)

Provided the Consolidation qualifies as a tax-deferred exchange under Code Section 1036 and/or a tax-deferred recapitalization under Code Section 368(a)(1)(E), and subject to the discussion above regarding fractional KWESST Shares, while the per-share tax basis is impacted, the tax basis of each shareholder's total investment remains the same. The post-Consolidation per-share tax basis should be equal to the pre-Consolidation aggregate tax basis in each ten (10) KWESST Shares held, as adjusted for any whole KWESST Share received in lieu of a fractional KWESST Share or any fractional KWESST Share that was rounded down to the nearest whole KWESST Share, as applicable. This results in an increased per-share tax basis for the fewer number of KWESST Shares held, as adjusted for any whole KWESST Share received in lieu of a fractional KWESST Share or any fractional KWESST Share that was rounded down to the nearest whole KWESST Share, as applicable.

Part II Item 17. (List of applicable Code sections)

Provided the Consolidation qualifies as a tax-deferred exchange under Code Section 1036 and/or a tax-deferred recapitalization under Code Section 368(a)(1)(E), the U.S. federal income tax consequences for U.S. Shareholders should be determined under Code Sections 305(a), 307(a), 354, 358, 368(a)(1)(E), 1036 and 1223.

In addition, if KWESST was a PFIC at any time during the period that a U.S. Shareholder held KWESST Shares, then Code Sections 1291–1297 would be applicable to such U.S. Shareholder for purposes of the Consolidation.

Part II Item 18. (Recognition of loss)

Provided the Consolidation qualifies as a tax-deferred exchange under Code Section 1036 and/or a tax-deferred recapitalization under Code Section 368(a)(1)(E), and subject to the discussion above regarding fractional KWESST Shares, U.S. Shareholders should generally not recognize any loss pursuant to the Consolidation.

Part II Item 19. (Other information)

The Consolidation was effective on October 23, 2024. For a U.S. Shareholder which participated in the Consolidation whose taxable year is a calendar year, the reportable tax year is 2024.