Armor upgrades work as Weapon upgrades but you use lobster scales to perform these, you should be able to equip and unequip armor, if durabillity hits 0 the armor and upgrades are lost.

Weapon upgrades works by gathering multiple of the same weapons from enemies, who should drop these.

Each Category within the upgrades should have five levels. It should require more resources to upgrade each time upgrade. So that durability level one is cheaper than durability level two. If a weapon loses all durability before it has been repaired it is lost for good, so is the upgrades attached.