
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **August 31, 2018**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: **333-132456**

SECURITY DEVICES INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of incorporation or organization)

71-1050654

(I.R.S. Employer Identification No.)

107 Audubon Road, Bldg 2, Suite 201

Wakefield, MA 01880

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number including area code: **(905) 582-6402**

N/A

Former name, former address, and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Larger accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of October 12, 2018, the Company had 94,494,088 issued and outstanding shares of common stock.

SECURITY DEVICES INTERNATIONAL, INC.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AUGUST 31, 2018
(Amounts expressed in US Dollars)
(Unaudited)

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SECURITY DEVICES INTERNATIONAL, INC.
Condensed Interim Consolidated Balance Sheets
As at August 31, 2018 and November 30, 2017
(Amounts expressed in US Dollars)
(Unaudited)

	August 31, 2018 \$	November 30, 2017 \$
ASSETS		
CURRENT		
Cash and cash equivalents	473,901	1,965,043
Accounts receivable	33,380	36,412
Inventory (Note 10)	159,738	157,303
Prepaid expenses and other receivables	<u>103,451</u>	<u>6,648</u>
Total Current Assets	770,470	2,165,406
Patents (Note 12)	108,167	-
Deposit for equipment (Note 3)	180,000	-
Property and equipment (Note 3)	<u>113,162</u>	<u>26,951</u>
TOTAL ASSETS	<u>1,171,799</u>	<u>2,192,357</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 6)	296,348	393,341
Unsecured convertible debentures (Note 9)	-	40,357
Secured convertible debentures (Note 9)	966,406	-
Derivative liabilities (Note 9)	<u>290,382</u>	<u>539,860</u>
Total Current Liabilities	1,553,136	973,558
Long term secured convertible debentures (Note 9)	<u>-</u>	<u>892,176</u>
Total Liabilities	1,553,136	1,865,734
Going Concern (Note 2)		
Related Party Transactions (Note 6)		
Commitments (Note 7)		
Subsequent Events (Note 14)		
STOCKHOLDERS' (DEFICIENCY) EQUITY		
Capital stock (Note 4)		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, Nil issued and outstanding (November 30, 2017 - nil).		
Common stock, \$0.001 par value 200,000,000 shares authorized (2017: 200,000,000), 94,494,088 issued and outstanding (November 30, 2017: 93,014,134)	94,494	93,014
Additional paid-in capital	31,621,504	31,365,097
Deficiency	(32,057,536)	(31,098,864)
Accumulated Other Comprehensive Loss	<u>(39,799)</u>	<u>(32,624)</u>
Total Stockholders' (Deficiency) Equity	(381,337)	326,623
TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIENCY) EQUITY	<u>1,171,799</u>	<u>2,192,357</u>

See accompanying notes to the condensed interim consolidated financial statements.

SECURITY DEVICES INTERNATIONAL, INC.
Condensed Interim Consolidated Statements of Operations and Comprehensive Loss
For the Nine Months and Three Months Ended August 31, 2018 and 2017
(Amounts expressed in US Dollars)
(Unaudited)

	For the nine months ended August 31, 2018	For the nine months ended August 31, 2017 (Restated) (See Note 13)	For the three months ended August 31, 2018	For the three months ended August 31, 2017 (Restated) (See Note 13)
	\$	\$	\$	\$
SALES	220,115	209,958	53,257	70,353
COST OF SALES	(148,515)	(121,989)	(29,302)	(46,705)
GROSS PROFIT	71,600	87,969	23,955	23,648
EXPENSES:				
Depreciation (Note 3)	12,138	42,596	5,379	17,474
Amortization of patents	1,833	-	1,833	-
Foreign currency translation (gain) (Note 9)	(17,498)	73,210	(5,898)	80,021
Selling, general and administration	1,091,424	1,544,953	385,556	433,759
TOTAL OPERATING EXPENSES	1,087,897	1,660,759	386,870	531,254
LOSS FROM OPERATIONS	(1,016,297)	(1,572,790)	(362,915)	(507,606)
Accretion (Note 9)	(88,102)	(249,405)	(29,991)	(94,134)
Change in fair value of derivative liabilities (Note 9)	245,852	718,667	307,201	122,967
Other expense- Interest (Note 9)	(100,125)	(279,729)	(32,946)	(82,928)
LOSS BEFORE INCOME TAXES	(958,672)	(1,383,257)	(118,651)	(561,701)
Income taxes	-	-	-	-
NET LOSS	(958,672)	(1,383,257)	(118,651)	(561,701)
Foreign exchange translation adjustment for the period	(7,175)	23,858	(4,922)	2,062
COMPREHENSIVE LOSS	(965,847)	(1,359,399)	(123,573)	(559,639)
Loss per share - basic and diluted	(0.010)	(0.024)	(0.001)	(0.010)
Weighted average number of common shares outstanding	93,559,755	56,115,696	94,357,643	56,732,099

See accompanying notes to the condensed interim consolidated financial statements.

SECURITY DEVICES INTERNATIONAL, INC.
Condensed Interim Consolidated Statements of Cash Flows
For the Nine Months Ended August 31, 2018 and 2017
(Amounts expressed in US Dollars)
(Unaudited)

	For the nine months ended August 31, 2018	For the nine months ended August 31, 2017 (Restated) (See Note13)
	<u> </u> \$	<u> </u> \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	(958,672)	(1,383,257)
Items not requiring an outlay of cash:		
Value of issue of options (included in selling, general and administration expenses)	45,387	197,378
Amortization of deferred financing costs	-	65,915
Accretion	88,102	249,405
Foreign currency translation (gain) loss	(17,498)	73,210
Accrued interest converted to convertible debentures	-	26,809
Change in fair value of derivative liabilities	(245,852)	(718,667)
Issue of common shares for services	212,500	150,000
Depreciation	12,138	42,596
Amortization of intangibles	1,833	-
Changes in non-cash working capital:		
Accounts receivable	1,252	5,300
Prepaid expenses and other receivables	(98,296)	31,534
Inventory	(2,435)	(202,980)
Accounts payable and accrued liabilities	(96,455)	81,795
NET CASH USED IN OPERATING ACTIVITIES	<u>(1,057,996)</u>	<u>(1,380,962)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of patents	(110,000)	-
Deposit for equipment	(180,000)	-
Purchase of property and equipment	(98,349)	(21,703)
NET CASH USED IN INVESTING ACTIVITIES	<u>(388,349)</u>	<u>(21,703)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from promissory note	-	70,640
Repayment of convertible debentures	-	(66,640)
Net proceeds from convertible debentures	-	1,433,716
Repayment of unsecured convertible debentures	(40,357)	-
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	<u>(40,357)</u>	<u>1,437,716</u>
Effects of foreign currency exchange rate changes	(4,440)	27,017
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS FOR THE PERIOD	<u>(1,491,142)</u>	<u>62,068</u>
Cash and cash equivalents, beginning of period	1,965,043	192,826
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>473,901</u>	<u>254,894</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS:		
INCOME TAXES PAID	<u>-</u>	<u>-</u>
INTEREST PAID	<u>67,179</u>	<u>103,840</u>

See accompanying notes to the condensed interim consolidated financial statements.

SECURITY DEVICES INTERNATIONAL, INC.
Condensed Interim Consolidated Statement of Changes in Stockholders' Equity
For the Nine Months Ended August 31, 2018 and 2017
(Amounts expressed in US Dollars)
(Unaudited)

	Number of Common Shares #	Common Shares amount \$	Additional Paid-in Capital \$	Accumulated Deficit \$	Accumulated Other Comprehensive Loss \$	Total \$
Balance as of November 30, 2016	55,104,493	55,105	27,307,274	(28,298,613)	(57,358)	(993,592)
Issue of common shares for services	589,414	589	49,411	-	-	50,000
Issue of common shares for services	503,251	503	49,497	-	-	50,000
Issue of common shares for services	534,941	535	49,465	-	-	50,000
Stock based compensation for issue of options			197,378			197,378
Net loss for the period	-	-	-	(1,383,257)	-	(1,383,257)
Foreign currency translation	-	-	-	-	23,858	23,858
Balance as of August 31, 2017 (Restated-Note 13)	56,732,099	56,732	27,653,024	(29,681,870)	(33,500)	(2,005,613)
Balance as of November 30, 2017	93,014,134	93,014	31,365,097	(31,098,864)	(32,624)	326,623
Stock based compensation	-	-	45,387	-	-	45,387
Issue of common shares for services	507,550	508	61,992	-	-	62,500
Issue of common shares for services	339,370	339	49,661	-	-	50,000
Issue of common shares for services	334,154	334	49,666	-	-	50,000
Issue of common shares for services	298,880	299	49,701	-	-	50,000
Net loss for the period	-	-	-	(958,672)	-	(958,672)
Foreign currency translation	-	-	-	-	(7,175)	(7,175)
Balance as of August 31, 2018	94,494,088	94,494	31,621,504	(32,057,536)	(39,799)	(381,337)

See accompanying notes to the condensed interim consolidated financial statements.

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Condensed Interim Consolidated Financial Statements
August 31, 2018
(Amounts expressed in US Dollars)
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying condensed unaudited interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America (GAAP); however, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods.

The condensed unaudited interim consolidated financial statements should be read in conjunction with the financial statements and notes thereto together with management's discussion and analysis of financial condition and results of operations contained in Security Devices International Inc.'s ("SDI" or the "Company") annual report on Form 10-K for the year ended November 30, 2017. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary to fairly state the financial position of the Company at August 31, 2018 and November 30, 2017, the results of its operations for the nine and three-month periods ended August 31, 2018 and August 31, 2017, and its cash flows for the nine-month periods ended August 31, 2018 and August 31, 2017. The results of operations for the nine -month period ended August 31, 2018 are not necessarily indicative of results to be expected for the full year.

The Company was incorporated under the laws of the state of Delaware on March 1, 2005. On February 3, 2014, the Company incorporated a wholly owned subsidiary in Canada, Security Devices International Canada Corp. The condensed unaudited interim consolidated financial statements for the period ended August 31, 2018 include the accounts of Security Devices International, Inc., and its subsidiary Security Devices International Canada Corp. All material inter-company accounts and transactions have been eliminated.

2. NATURE OF OPERATIONS AND GOING CONCERN

The Company is a less-lethal defense technology company, specializing in the innovative next generation solutions for security situations that do not require the use of lethal force. SDI has implemented manufacturing partnerships to assist in the deployment of their patented and patent pending family of 40mm and .68 caliber products. These products consist of the current manufacture of Blunt Impact Projectile 40mm (BIP) line of products, a line of 12guage less-lethal products, and a .68 caliber hand held personal security device called the byrna.

These condensed unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year.

The Company's activities are subject to risk and uncertainties including:

The Company has not earned adequate revenue and has used cash in its operations. Therefore, the Company will need additional financing to continue its operations if it is unable to generate substantial revenue growth.

The Company has incurred a cumulative loss of \$32,057,536 from inception to August 31, 2018 and has a working capital deficiency of \$782,666 at August 31, 2018. The Company has funded operations through the issuance of capital stock, warrants and convertible debentures. The Company has started to generate revenue from operations. However, it still expects to incur significant losses before becoming profitable. The Company's future success is dependent upon its ability to raise sufficient capital or generate adequate revenue, to cover its ongoing operating expenses, and also to continue to develop and be able to profitably market its products. There can be no assurance that such financing will be available at all or on favorable terms. These factors raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty; such adjustments could be material.

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Condensed Interim Consolidated Financial Statements
August 31, 2018
(Amounts expressed in US Dollars)
(Unaudited)

3. PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost less accumulated depreciation. Depreciation is provided commencing in the month following acquisition using the following annual rate and method:

Computer equipment and software	30%	declining balance method
Furniture and fixtures	30%	declining balance method
Leasehold improvements		straight line over period of lease
Moulds	20%	straight line over 5 years

	August 31, 2018		November 30, 2017	
	Cost \$	Accumulated Amortization \$	Cost \$	Accumulated Amortization \$
Computer equipment and software	69,925	44,310	53,696	39,971
Furniture and fixtures	20,998	18,523	20,998	17,805
Leasehold improvements	26,471	26,471	26,471	26,471
Moulds	291,599	206,527	209,515	199,482
	<u>408,993</u>	<u>295,831</u>	<u>310,680</u>	<u>283,729</u>
Net carrying amount		\$ 113,162		\$ 26,951
Depreciation expense for nine- month period		\$ 12,138 (August 31, 2018)		\$ 42,596 (August 31, 2017)

The Company deposited \$180,000 with a vendor for supply of moulds. As of August 31, 2018, the vendor had not completed the manufacture and supply of these moulds.

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Condensed Interim Consolidated Financial Statements
August 31, 2018
(Amounts expressed in US Dollars)
(Unaudited)

4. CAPITAL STOCK

a) Authorized

200,000,000* Common shares, \$0.001 par value

And

5,000,000 Preferred shares, \$0.001 par value

* On October 6, 2017, the Company filed with the Secretary of the State of Delaware a certificate of amendment (the "Amendment") to the Company's certificate of incorporation. The Amendment increased the number of authorized shares of the Company's common stock, par value \$0.001, from 100,000,000 to 200,000,000 common shares.

The Company's Articles of Incorporation authorize its Board of Directors to issue up to 5,000,000 shares of preferred stock having par value of \$0.001. The provisions in the Articles of Incorporation relating to the preferred stock allow the directors to issue preferred stock with multiple votes per share and dividend rights, which would have priority over any dividends paid with respect to the holders of SDI's common stock.

b) Issued

94,494,088 Common shares (November 30, 2017: 93,014,134 Common shares)

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Condensed Interim Consolidated Financial Statements
August 31, 2018
(Amounts expressed in US Dollars)
(Unaudited)

4. CAPITAL STOCK-Cont'd

c) Changes to Issued Share Capital

Year ended November 30, 2017

In January 2017, the Company made the second share issuance to Northeast Industrial Partners LLP ("NEIP") pursuant to a consulting agreement. The Company issued 589,414 common shares at a price of \$0.0848 per share to satisfy the payment of \$50,000 due on November 15, 2016.

In March 2017, the Company made the third share issuance to Northeast Industrial Partners pursuant to a consulting agreement. The Company issued 503,251 common shares at a price of \$0.0994 per share to satisfy the payment of \$50,000 due on February 15, 2017.

In June 2017, the Company made the fourth and final share issuance to Northeast Industrial Partners pursuant to a consulting agreement. The Company issued 534,941 common shares at a price of \$0.0935 per share to satisfy the payment of \$50,000 due on May 15, 2017.

In October 2017, the Company made a further share issuance to Northeast Industrial Partners under the consulting agreement announced on June 20, 2016 and extended as announced on June 16, 2017. The Company issued 498,423 common shares at a price of \$0.1254 per share to satisfy the payment of \$62,500 due in August 2017.

On November 28, 2017, the Company closed the sale of 35,783,612 units on a private placement basis for gross proceeds of \$3,793,063 (net proceeds of \$3,669,120). Share issue costs related to this issuance totaled \$123,943. This includes the issuance of 17,648,258 units, issued to settle the 2016 secured convertible debt for \$1,500,000 along with interest as well as additional \$113,044 in debt which comprised of a promissory note for \$72,585 (CAD \$89,040) and unsecured convertible debentures for \$39,159 (CAD\$50,000) plus accrued interest of \$1,300.

Each unit consists of one common share of Company stock and one-half of a warrant. Each whole warrant is exercisable for one common share of the Company stock on or before November 28, 2022 at an exercise price of \$0.18. If the average closing price of the common shares is over \$0.36 per share for a period of 20 consecutive trading days ending after November 28, 2019, the Company may give notice to the registered holders of the warrants accelerating the expiry date to a date not less than 30 days following the date of that notice.

J Streicher Capital, LLC (the "Agent") acted as exclusive Agent for the brokered portion of the private placement which totaled \$1,922,348. The Agent received a cash commission of \$60,669 and 572,354 agent warrants. Each agent warrant is exercisable for one common share of the Company stock on or before November 28, 2022 at an exercise price of \$0.15. If the closing price of the common shares is over \$0.30 per share for a period of 20 consecutive trading days ending after November 28, 2019, the Company may give notice accelerating the expiry date of the agent warrants to a date not less than 30 days following the date of that notice.

Nine months ended August 31, 2018

In May 2018, the Company made a share issuance to NEIP under the consulting agreement announced on June 16, 2017. SDI issued 507,550 common shares at a price of \$0.1231 per share to satisfy the payment of \$62,500 due in December 2017.

In May 2018, the Company made a share issuance to Paul Jensen under the employment agreement announced on August 28, 2017. SDI issued 339,370 common shares at a price of \$0.1473 per share to satisfy the payment of \$50,000, payable for the months of October to December 2017.

In May 2018, the Company made a share issuance to Paul Jensen under the employment agreement announced on August 28, 2017. SDI issued 334,154 common shares at a price of \$0.1496 per share to satisfy the payment of \$50,000, payable for the months of January to March 2018.

In July 2018, the Company made a share issuance to Paul Jensen under the employment agreement announced on August 28, 2017. SDI issued 298,880 common shares at a price of \$0.1673 per share to satisfy the payment of \$50,000, payable for the months of April to June 2018.

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Condensed Interim Consolidated Financial Statements
August 31, 2018
(Amounts expressed in US Dollars)
(Unaudited)

5. STOCK BASED COMPENSATION AND WARRANTS

Effective May 31, 2013, the Company adopted an incentive stock option plan (the “2013 Stock Option Plan”) which replaced the prior stock option and stock bonus plans, as ratified by the Company’s shareholders at the Company’s 2015 annual meeting of shareholders. A maximum of 9,379,857 common shares were reserved for issuance under the 2013 Stock Option Plan.

The Board approved a revised stock option plan (the “Revised Stock Option Plan”) and received stockholder approval at the annual meeting held on December 19, 2017, that will increase the number of shares reserved for issuance under the stock option plan from 9,379,857 to 18,993,274.

The material terms of the Revised Stock Option Plan are as follows:

(a) While the shares are listed on the TSX Venture Exchange (“TSX-V”), options may be granted to employees, senior officers, directors and consultants of the Company or a subsidiary of the Company and to corporations wholly-owned by such an employee, senior officer, director or consultant. If the Revised Stock Option Plan becomes subject to NI 45-106, options may be granted to employees, executive officers, directors and consultants of the Company or any parent or subsidiary of the Company and corporations controlled by them.

(b) The maximum number of common shares which can be issued under the Revised Stock Option Plan will be 18,993,274; provided that, so long as the Company is listed on the TSX-V. This maximum was reduced to 20% of the issued and outstanding common shares on December 19, 2017.

(c) The term of any option granted under the Revised Stock Option Plan will be fixed by the board of directors at the time such option is granted, provided that options will not be permitted to exceed a term of ten years.

(d) The exercise price of any options granted under the Revised Stock Option Plan will be determined by the board of directors, in its sole discretion, but shall not be less than the closing price of the shares on the stock exchange on the day preceding the day on which the directors grant such options.

(e) While the shares are listed on the TSX-V, options will be non-assignable and non-transferable. If the Revised Stock Option Plan becomes subject to NI 45-106, options will be non-assignable and non-transferable except to certain permitted assigns including a spouse, a holding company of the option holder or spouse and a trustee, custodian or administrator acting on behalf of the option holder or spouse.

(f) So long as the shares are listed on the TSX-V, options on no more than 2% of the issued shares may be granted to any one consultant, or in aggregate to all persons performing investor relations activities, in any 12-month period.

(g) If the option holder ceases to be someone eligible to receive a grant of options under the Revised Stock Option Plan, then that holder’s existing options shall expire on the earlier of (i) the expiry date fixed at the time of the option grant, and (ii) ninety days after the date that the option holder ceases to be eligible to receive a grant of options under the Revised Stock Option Plan.

Warrants

On November 28, 2017, the Company closed the sale of 35,783,612 units on a private placement basis for gross proceeds of \$3,793,063. Each unit consists of one common share of Company stock and one-half of a warrant. The Company issued 35,783,612 common shares and 17,891,806 warrants. Each whole warrant is exercisable for one common share of the Company stock on or before November 28, 2022 at an exercise price of \$0.18. In addition to cash compensation, the Agent received 572,354 agent warrants. Each agent warrant is exercisable for one common share of the Company stock on or before November 28, 2022 at an exercise price of \$0.15. The fair value of these Agent warrants was estimated at \$78,332 using the Binomial option pricing model and reflected in additional paid-in capital. The valuation considered the following assumptions- risk free rate of 2%; expected dividends of 0%; expected forfeiture rate of 0%; expected volatility of 132%; market price of the Company's common stock of \$0.17 and expected life of 5 years. If the closing price of the common shares is over \$0.30 per share for a period of 20 consecutive trading days ending after November 28, 2019, the Company may give notice accelerating the expiry date of the agent warrants to a date not less than 30 days following the date of that notice.

Stock Options:

On March 27, 2017, the board of directors granted options to the CEO to acquire a total of 1,150,000 common shares. These options were issued at an exercise price of CAD \$0.13 (\$0.10) per share and vest thirty-three and one-third (33 1/3) percent every six months commencing January 1, 2017, with an expiry term of five years. The fair value of each option used for the purpose of estimating the stock compensation is estimated using the Black-Scholes option pricing model with the following assumptions:

Risk free rate		2.00%
Expected dividends		0%
Expected forfeiture rate		0%
Expected volatility		134.27%
Expected life		5 years
Market price of the Company's common stock on date of grant of options	\$	0.10
Stock-based compensation cost expensed	\$	61,358
Unvested stock-based compensation expense	\$	39,047

On May 26, 2017, the board of directors granted 895,000 options to directors and 75,000 options to a consultant to acquire a total of 970,000 common shares. These options were issued at an exercise price of CAD \$0.20 (\$0.15) per share and vested immediately with an expiry term of five years. The fair value of each option used for the purpose of estimating the stock compensation is estimated using the Black-Scholes option pricing model with the following assumptions:

Risk free rate		2.00%
Expected dividends		0%
Expected forfeiture rate		0%
Expected volatility		127.0 0%
Expected life		5 years
Market price of the Company's common stock on date of grant of options	\$	0.14
Stock-based compensation cost expensed	\$	124,326
Unvested stock-based compensation expense	\$	Nil

On June 19, 2017, the board of directors granted options to an employee to acquire a total of 150,000 common shares. These options were issued at an exercise price of CAD \$0.20 (\$0.15) per share and vest immediately with an expiry term of five years. The fair value of each option used for the purpose of estimating the stock compensation is estimated using the Black-Scholes option pricing model with the following assumptions:

Risk free rate	2.00%
Expected dividends	0%
Expected forfeiture rate	0%
Expected volatility	128.83%
Expected life	5 years
Market price of the Company's common stock on date of grant of options	\$ 0.14
Stock-based compensation cost expensed	\$ 17,795
Unvested stock-based compensation expense	\$ Nil

On August 10, 2017, the board of directors granted options to a new director to acquire a total of 96,667 common shares. These options were issued at an exercise price of CAD \$0.20 (\$0.16) per share and vest immediately with an expiry term of five years. The fair value of each option used for the purpose of estimating the stock compensation is estimated using the Black-Scholes option pricing model with the following assumptions:

Risk free rate	2.00%
Expected dividends	0%
Expected forfeiture rate	0%
Expected volatility	129.90 %
Expected life	5 years
Market price of the Company's common stock on date of grant of options	\$ 0.13
Stock-based compensation cost expensed	\$ 10,633
Unvested stock-based compensation expense	\$ Nil

As of November 30, 2017, there was \$39,047 of unrecognized expense related to non-vested stock-based compensation arrangements granted.

Nine months ended August 31, 2018

Warrants

The Company did not issue any warrants during the nine- month period ended August 31, 2018.

Stock Options:

On March 27, 2017, the board of directors had granted options to the CEO to acquire a total of 1,150,000 common shares. These options were issued at an exercise price of CAD \$0.13 (\$0.10) per share and vest thirty-three and one-third (33 1/3) percent every six months commencing January 1, 2017, with an expiry term of five years. The Company expensed stock-based compensation expense of \$39,046 regarding the vesting of options during the nine-month period ended August 31, 2018 leaving a balance of \$nil as unvested stock- based compensation expense.

On April 13, 2018, the Company issued 1,500,000 options for shares of the Company's common stock to the CTO, Mr. André Buys, with a strike price equal to the Company's stock price on April 13, 2018 and a trigger price of \$0.30, \$0.50 and \$1.00 for each batch of 500,000 options, respectively. The Company's stock price must close above the trigger price for 20 days in order for the option to be vested. The options shall have a seven-year life from grant date and Mr. Buys must remain employed by the Company for three years for the options to vest. The fair value of each option used for the purpose of estimating the stock compensation is estimated using the Binomial Lattice model with the following assumptions:

Risk free rate	5.50%
Expected dividends	0%
Expected forfeiture rate	0%
Expected volatility	188%
Expected life	7 years
Market price of the Company's common stock on date of grant of options	\$ 0.16
Stock-based compensation cost expensed	\$ 6,341
Unvested stock-based compensation expense	\$ 44,386

As of August 31, 2018, there was \$44,386 of unrecognized expense related to non-vested stock-based compensation arrangements granted.

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6. RELATED PARTY TRANSACTIONS

The following transactions are in the normal course of operations and are measured at the amount of consideration established and agreed to by related parties.

Nine months ended August 31, 2018

As of August 31, 2018, there are no amounts receivable from related parties.

As of August 31, 2018, the Company had a payable of \$103,906 to related parties to be settled by issuance of stock.

Effective as of October 1, 2017, the Company entered into an employment agreement (the "Employment Agreement") with Paul Jensen pursuant to which Mr. Jensen serves as President and Chief Operating Officer and effective July 13, 2018 serves as CEO of the Company. By the terms of the Employment Agreement, Mr. Jensen will receive an annual salary of \$200,000, payable as follows. For the period beginning on October 1, 2017 and ending on June 30, 2018, Mr. Jensen shall receive quarterly payments of the Company's common stock, to be issued 15 days after the end of each three-month quarter. Commencing July 1, 2018, the Company will pay \$10,000 per month in cash and the balance in Company stock. At such time as the Company can pay the entire salary in cash and be cash positive on an operating basis, the entire monthly salary will be paid in cash. The Company expensed \$150,000 for the services for the nine months ended August 31, 2018.

The Company expensed \$34,875 for services provided by the CFO of the Company which was paid to a corporation in which the CFO has an ownership interest, in accordance with the consulting contract.

The Company expensed \$116,575 which includes \$18,000 for issuance of proportionate shares per his contract, for services provided by the CEO and effective July 13, 2018 providing services as executive chairman of the Company and which was paid to a corporation in which the CEO has an ownership interest, in accordance with the consulting contract (See also note 7).

On March 27, 2017, the board of directors had granted options to the CEO to acquire a total of 1,150,000 common shares. The Company expensed \$39,046 for the value of options which vested during this period.

In May 2018, the Company made a share issuance to NEIP under the consulting agreement announced on June 16, 2017. SDI issued 507,550 common shares at a price of \$0.12 per share to satisfy the payment of \$62,500 due in December 2017.

On April 13, 2018, the Company employed Mr. André Buys as the CTO with compensation of \$10,000 per month over a three-year period. The Company expensed \$46,667 during the nine-month period ended August 31, 2018. On April 13, 2018, the Company granted options to Mr. André Buys to acquire a total of 1,500,000 common shares. The Company expensed \$6,341 for the value of options which vested during this period. See also Note 7(a) for the agreement entered into with Mr. Buys.

Effective June 1, 2018 the Company entered into a consulting agreement (the “Consulting Agreement”) with Bryan Ganz pursuant to which Mr. Ganz serves as President of the Company. By the terms of the Consulting Agreement, Mr. Ganz will be paid annually \$200,000 in the Company’s common shares for his services and subject to stock exchange approval. The Common shares shall be issued quarterly, ending March 31, 2019. For the Company’s fiscal third and fourth quarter the President shall be paid 500,000 common shares for each quarter. The Company accrued expenses \$72,573 being cost for services to be compensated by issuance of shares.

Effective December 1, 2017, the Company leased office premises at Wakefield, Massachusetts, USA for rent of \$700 per month from a corporation owned and controlled by a director of the Company. The Company expensed \$6,300 as office rent for the nine-months ended August 31, 2018. As of August 31, 2018, the Company has a payable for \$3,940 (August 31, 2017: \$nil) for the rent.

Nine months ended August 31, 2017

Effective July 21, 2016, Bryan Ganz was elected as a director of the Company. Prior to his appointment, effective May 1, 2016, the Company executed a one-year consulting agreement with Northeast Industrial Partners, LLC (“NEIP”), a Corporation in which the said director has an ownership interest. In January 2017, the Company issued 589,414 common shares at a price of \$0.1142 per share to satisfy the payment of USD \$50,000 due on November 15, 2016. In March 2017, the Company made the third share issuance and issued 503,251 common shares at a price of \$0.0994 per share to satisfy the payment of USD \$50,000 due on February 15, 2017. In May 2017, the Company made the fourth and final share issuance and issued 534,941 common shares at a price of \$0.0935 per share to satisfy the payment of USD \$50,000 due on May 15, 2017. Effective May 1, 2017, the Company and NEIP renewed the agreement for the period of time until such date as either of them terminates the original contract on not less than 15 days prior written notice to the other party. For services rendered by NEIP during the extension, SDI shall pay NEIP \$62,500 within 15 days following every consecutive three-month period during the extension. The Company accrued expense for \$62,500 for the quarter ended August 2017 and this expense was settled and paid subsequently to the quarter by issue of shares (see also Note 13-subsequent events). In addition, the Company executed a one-year back-office accounting and administration services agreement with NEIP effective January 1, 2017 to pay compensation of \$7,500 per month. The Company expensed \$60,000 for services provided during the nine- month period ended August 31, 2017.

The Company expensed \$27,000 for services provided by the CFO of the Company and \$32,300 for services provided by two Corporations in which the CEO has an ownership interest, in accordance with the consulting contract. In addition, the CEO was paid a salary of \$78,500 during the nine- month period ended August 31, 2017.

During the nine- month period ended August 31, 2017, the Company issued options to directors. The Company expensed \$169,970 for the value of options which vested during this period.

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7. COMMITMENTS

a) Consulting agreements:

The non-independent directors of the Company executed consulting agreements with the Company on the following terms:

The Company executed a consulting agreement with a Corporation owned by the CEO and later designated executive chairman, effective July 1, 2018 providing services as executive chairman of the Company. The contract, unless renewed expires on March 31, 2019. During the service term, the Company will pay \$3,500 per month and in addition, be issued 180,000 common shares of the Company on a quarterly basis until the end of the term. Each quarterly installment is due the 15th day of the following month after the quarter. The common shares will be priced at the volume weighted average trading price per common share over the 20-day period proceeding the due date.

Effective as of October 1, 2017, the Company entered into an employment agreement (the "Employment Agreement") with Paul Jensen pursuant to which Mr. Jensen serves as President and Chief Operating Officer of the Company. By the terms of the Employment Agreement, Mr. Jensen will receive an annual salary of \$200,000, payable as follows. For the period beginning on October 1, 2017 and ending on June 30, 2018, Mr. Jensen shall receive quarterly payments of the Company's common stock, to be issued 15 days after the end of each three-month quarter. The shares issued shall be valued based upon the weighted average closing price of the Company's shares for the twenty (20) trading days prior to the end of the applicable quarter. Commencing July 1, 2018, the Company will pay \$10,000 per month in cash and the balance in Company stock. At such time as the Company can pay the entire salary in cash and be cash positive on an operating basis, the entire monthly salary will be paid in cash.

Effective December 1, 2017, the Company signed a twelve-month contract with a corporation owned and controlled by the CFO to pay annual compensation of \$42,000 for CFO services. The Company paid a retainer of \$10,500 and is committed to pay \$2,625 on monthly basis. Early termination of the contract by the Company without cause or change in control will attract a termination payment of \$20,000.

On April 13, 2018, the Company entered into a Purchase and Sale Agreement (the "Agreement") with André Buys, a resident of South Africa, pursuant to which the Company purchased from Mr. Buys a portfolio of registered patents, provisional patents, and other intellectual property relating to air and/or gas fired long guns or pistols, including pump action launchers and munitions used with such pistols and long guns, including self-stabilizing shaped or "finned" rounds (the "Portfolio"). As consideration for the Portfolio, the Company (i) paid Mr. Buys \$100,000, (ii) agreed to pay Mr. Buys either \$500,000 in cash or \$750,000 worth of Company stock within two years (the "Second Payment"), (iii) issued 1,500,000 options for shares of the Company's common stock to Mr. Buys with a strike price equal to the Company's stock price on April 13, 2018 and a trigger price of \$0.30, \$0.50 and \$1.00 for each batch of 500,000 options, respectively. The Company's stock price must close above the trigger price for 20 days in order for the option to be triggered. The options shall have a seven- year life from grant date and Andre Buys must remain employed by the Company for three years in order for the options or warrants to vest, and (iv) agreed to pay Mr. Buys certain royalty payments for sales of products by the Company using technology covered by the Portfolio. Until the earlier of, the second anniversary or the date the Second Payment is made, the royalty will be 10% of the Net Sales Price ("NSP"). The royalty will then be reduced to 4% till the sixth anniversary, 3% till the eighth anniversary, and 2% till the last expiration date of any of the intellectual property in the Portfolio. Until the royalty exceeds \$25,000 per year, the Company is committed to a minimum payment of \$25,000 per year effective on the earlier of one year from closing or upon Andre Buys relocation to Boston. In the event that the Company fails to make the Second Payment, the Portfolio would revert to Mr. Buys, but the Company would retain perpetual, irrevocable, exclusive and non-exclusive licenses to use technology with respect to the Portfolio and any technology developed within two years of April 13, 2018. The Company has not recorded any amount related to the Second Payment. In addition, the Company has hired Mr. Buys as its Chief Technology Officer at a starting salary of \$10,000 per month. The Company agrees that it will not terminate Andre Buys except for cause prior to April 2021. As a result, the minimal commitment relating to the employment contract is \$320,000 payable over a period of 32 months.

Effective June 1, 2018 the Company entered into a consulting agreement (the “Consulting Agreement”) with Bryan Ganz pursuant to which Mr. Ganz serves as President of the Company. By the terms of the Consulting Agreement, Mr. Ganz will be paid annually \$200,000 in the Company’s common shares for his services and subject to stock exchange approval. The common shares shall be issued quarterly, ending March 31, 2019. For the Company’s fiscal third and fourth quarter the President shall be paid 500,000 common shares for each quarter. Commencing on the Company’s first quarter of 2019, Mr. Ganz will be issued an ongoing 250,000 common shares for his services.

Effective August 24, 2018, the Company entered into an agreement with a New Mexico limited liability company (“Vendor”) whereby the Vendor will provide range of third- party logistical services in including (1) document review; (2) product testing; (3) sourcing of packaging and accessories; (4) product assembly and kitting; (5) order fulfillment; (6) shipping compliance review; (7) management of returns and warranty claims. Upon the signing of the agreement, the Company paid the vendor a one-time signing fee of \$20,000. Milestone payments totalling \$75,000 are due under this agreement between September 1, 2018 to November 1, 2018.

b) Lease commitments

The Company has commitments for leasing office premises in Wakefield, Massachusetts, USA to June 27, 2019, at a monthly rent of \$700.

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8. EXCLUSIVE SUPPLY AND PURCHASE AGREEMENTS

The Company entered a Development, Supply and Manufacturing Agreement with the BIP manufacturer on August 1, 2017. This agreement provides the Company to order and purchase only from the BIP manufacturer certain BIP assemblies and components for use by the Company to produce less-lethal and training projectiles as described in the agreement in North America.

The agreement is for a term of four years with an automatic extension for additional one- year terms if neither party has given written notice of termination at least sixty (60) days prior to the end of the then- current term.

The Company entered a License and Supply Agreement with Safariland, LLC on May 1, 2017. This agreement provides the Company to license and sell only to Safariland, LLC for certain BIP standard payloads for integration with and production of certain less-lethal impact munitions in North America. This agreement is for a term of four years with an automatic extension for an additional one-year term if neither party have given written notice of termination at least ninety (90) days prior to the end of the then-current term.

As of August 31, 2018, the accounts receivable from one customer represents approximately 73% of accounts receivable (August 31, 2017 – 62% from one customers).

For the nine- month period ended August 31, 2018, one customer represented approximately 44% of total revenues (August 31, 2017 - 51% from two customers).

9. CONVERTIBLE DEBENTURES AND DEFERRED FINANCING COSTS

a) Unsecured Convertible Debentures

On August 6, 2014, the Company issued CAD \$1,549,000 (\$1,398,342) face value 12% convertible debentures with a term to August 6, 2017 (the “Maturity Date”).

On December 7, 2016, the Company entered into a Securities Purchase Agreement to sell \$1,500,000 of 10% senior secured convertible debentures, convertible into shares of the Company’s common stock, in a private placement. The sale of the secured notes was closed on December 7, 2016. A condition to the sale of the secured notes was the exchange of at least 80% in principal amount of the Company’s outstanding 12% Unsecured Debentures, which mature on August 6, 2017 (the “Unsecured Debentures”) for an equal principal amount of Subordinate Secured Debentures. Concurrent with the sale of the Secured Notes, CAD\$1,363,000 (\$1,015,026) of the Company’s outstanding Unsecured Debentures, which represented approximately 88% of the outstanding Unsecured Debentures, were exchanged for an equal principal amount of the Subordinate Secured Debentures.

Unsecured convertible debentures

	Unsecured convertible debentures \$	Deferred financing costs \$	Unsecured convertible debenture (Net) \$
Balance as of November 30, 2016	(1,153,540)	35,769	(1,117,771)
Exchanged for subordinate secured debentures	1,015,026	-	1,015,026
Amortization of deferred financing costs	-	(35,769)	(35,769)
Repayment of unsecured convertible debentures	66,640	-	66,640
Conversion of unsecured convertible debentures to equity	39,159	-	39,159
Foreign currency translation	(7,642)	-	(7,642)
Balance as of November 30, 2017	(40,357)	-	(40,357)
Repayment of unsecured convertible debentures	40,357	-	40,357
Balance as of August 31, 2018	-	-	-

On August 6, 2017, the Company repaid CAD \$84,000 (\$66,640) of the convertible debentures and the remaining convertible debenture holders for \$40,357 executed agreements for forbearance of their debt with a new repayment date of February 16, 2018. In February 2018, the Company repaid the convertible debt for \$40,357 along with accrued interest. During the nine-month period ended August 31, 2018, the Company recorded interest expense of \$1,035.

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9. CONVERTIBLE DEBENTURES AND DEFERRED FINANCING COSTS-Cont'd

b) Long-term Series B Secured Convertible Debentures \$966,406

Series B secured convertible debentures

The CAD\$1,363,000 (\$1,015,026) of Series B Secured Convertible Debentures (Subordinate Secured Debentures) were issued pursuant to the Trust Indenture agreement dated December 7, 2016 (the "Indenture") in exchange for the Unsecured Debentures in equal principal amount and an additional CAD\$36,000 (\$26,809) of Series B Secured Convertible Debentures were issued pursuant to the Indenture in payment of accrued interest. These debentures mature on June 6, 2019 and bear interest at 12% per annum, payable semi-annually. The debentures are secured by all the assets of the Company. The principal amount, plus accrued interest, may be converted at the option of the holder at any time during the term to maturity into shares of the Company's common stock at a conversion price of \$0.24 (CAD \$0.31) per share subject to anti-dilution protection with a minimum conversion price of \$0.13 (CAD \$0.10) and for capital reorganization events. The debentures also embody certain traditional default provisions that are linked to credit or interest risks, such as bankruptcy proceedings, liquidation events and corporate existence. The Company has concluded that the embedded conversion option is not indexed to its stock because it did not pass all eight conditions of equity classification provided in ASC 815. Therefore, the embedded conversion option is subject to classification in the financial statements in liabilities at fair value both at inception and subsequently pursuant to ASC 480-10-25-14.

The Company has evaluated the terms and conditions of the debentures under the guidance of ASC 815. Because the economic characteristics and risks of the equity-linked conversion options are not clearly and closely related to a debt-type host, the conversion features require classification and measurement as derivative financial instruments. The other embedded derivative features (down-round protection) were also not considered clearly and closely related to the host debt instruments. Further, these features individually were not afforded the exemption normally available to derivatives indexed to a company's own stock. Accordingly, the evaluation resulted in the conclusion that this compound derivative financial instrument requires bifurcation and liability classification, at fair value. The compound derivative financial instrument consists of (i) the embedded conversion features and the (ii) down-round protection features. Current standards contemplate that the classification of financial instruments requires evaluation at each report date.

The following table reflects the allocation of the purchase on December 7, 2016:

	Face Value
Secured Convertible Notes (CAD \$1,399,000)	\$ 1,041,835
Proceeds	1,041,835
Compound embedded derivative	(285,612)
Carrying value	\$ 756,223

The carrying value of these debentures at August 31, 2018 is CAD \$1,261,627 (\$966,406) and at November 30, 2017 was CAD \$1,149,563 (\$892,176).

Discounts (premiums) on the convertible notes arise from (i) the allocation of basis to other instruments issued in the transaction, (ii) fees paid directly to the creditor and (iii) initial recognition at fair value, which is lower than face value. Discounts (premiums) are amortized through charges (credits) to interest expense over the term of the debt agreement. Amortization of debt discounts (premiums) amounted to CAD \$112,064 (\$88,102) during the nine- month period ended August 31, 2018. During the nine- month period ended August 31, 2018, the Company recorded interest expense \$99,090.

Derivative Liabilities

The carrying value of the Compound Embedded Derivative Liability is reflected on the balance sheet, with changes in the carrying value being recorded as change in fair value of derivative liabilities on the statement of operations. The components of the compound embedded derivative as of November 30, 2017 are:

Financings giving rise to derivative financial instruments	Indexed Shares	Fair Value
Series B Convertible Secured Debentures December 7, 2016	8,044,853	\$ 539,860
	8,044,853	\$ 539,860

The components of the compound embedded derivative as of August 31, 2018 are:

Financings giving rise to derivative financial instruments	Indexed Shares	Fair Value
Series B Convertible Secured Debentures December 7, 2016	8,044,853	\$ 290,382
	8,044,853	\$ 290,382

The following table summarizes the effects on the gain (loss) associated with changes in the fair values of the derivative financial instruments by type of financing for the year ended November 30, 2017 and nine- month period ended August 31, 2018:

Financings giving rise to derivative financial instruments and the income effects:	
Compound embedded derivatives:	
Series B Convertible Secured Debentures December 7, 2016	\$ (285,612)
Change in fair value of derivative liabilities	(239,802)
Foreign currency translation loss	(14,446)
Balance as of November 30, 2017	\$ (539,860)
Change in fair value of derivative liabilities	245,852
Foreign currency translation gain	3,626
Balance as of August 31, 2018	\$ (290,382)

Fair Value Considerations

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. As presented in the tables below, this hierarchy consists of three broad levels:

- Level 1 valuations:* Quoted prices in active markets for identical assets and liabilities.
- Level 2 valuations:* Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model- derived valuations whose inputs or significant value drivers are observable.
- Level 3 valuations:* Significant inputs to valuation model are unobservable.

The Company follows the provisions of ASC 820 with respect to the financial instruments. As required by ASC 820, assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. Our derivative financial instruments which are required to be measured at fair value on a recurring basis under of ASC 815 as of August 31, 2018 are all measured at estimated fair value using Level 2 and 3 inputs.

The features embedded in the debentures were combined into one compound embedded derivative that were fair valued using the income valuation technique using the Lattice valuation model. The following table sets forth the inputs for each significant assumption:

	August 31, 2018	November 30, 2017	December 7, 2016
Derivative financial instruments	\$ 290,382	\$ 539,860	\$ 285,612
Conversion price	\$ 0.13	\$ 0.13	\$ 0.24
Volatility	53%	106%	82%
Remaining term (years)	0.77	1.52	2.50
Risk free rate	2.46%	1.78%	1.10%

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10. INVENTORY

Inventory as of August 31, 2018 consists of finished goods of 40mm Blunt Impact Projectiles of \$95,600 (November 30, 2017: \$109,673) and inventory procured from other suppliers of \$64,138 (November 30, 2017: \$47,630). The Company values its inventory on a first-in, first-out basis. Inventory is valued at the lower of cost or net realizable value.

11. SEGMENT DISCLOSURES

The Company is organized on two geographic areas in U.S.A. and Canada respectively. The U.S.A. and Canada operations are the Company's operating segments and reportable segments, and each of those segments are led by the Company's CEO. Performance is assessed and resources are allocated by the CEO, whom we have determined to be the Company's Chief Operating Decision Maker (CODM). Management evaluates the segments based primarily upon revenue and assets. The tables below present segment sales and assets for the nine-months ended August 31, 2018 and August 31, 2017:

Nine-months ended August 31, 2018

	SDI USA	SDI Canada	Total
Sales	\$ 188,304	\$ 115,472	\$ 303,776

Nine-months ended August 31, 2017

	SDI USA	SDI Canada	Total
Sales	\$ 178,287	\$ 77,662	\$ 255,949

	2018	2017
Sales	\$ 303,776	\$ 255,949
Elimination of intersegment revenue	(83,661)	(45,991)
Consolidated sales	\$ 220,115	209,958

As at August 31, 2018

	SDI	SDI Canada	Total
Assets	\$ 1,133,396	\$ 38,403	\$ 1,171,799

As at November 30, 2017

	SDI	SDI Canada	Total
Assets	\$ 2,159,618	\$ 32,739	\$ 2,192,357

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12. PATENTS

On April 13, 2018, the Company entered into a Purchase and Sale Agreement with André Buys, pursuant to which the Company agreed to purchase from Mr. Buys a portfolio of registered patents, provisional patents, and other intellectual property relating to air and/or gas fired long guns or pistols, including pump action launchers and munitions used with such pistols and long guns, including self-stabilizing shaped or “finned” rounds (see note 7(a)). As consideration for the portfolio, the Company paid Mr. Buys \$100,000, and incurred \$10,000 in legal costs to transfer these patents. This consideration of \$110,000 has been capitalized. These patents have a maximum life of 20 years, expiring on various dates beginning in November 2033 to 2038, and are amortized straight-line commencing June 2018 over a period of 15 years. The Company amortized \$1,833 during the three- month period ended August 31, 2018. As the full arrangement included an option for full acquisition of the rights, conditional upon certain future events taking place, the Company has recorded the minimum rights to a licence arrangement as patents. As at August 31, 2018, the amount recorded as Patents refer to the perpetual, irrevocable, exclusive and non-exclusive license to use technology with respect to the portfolio (Note 7).

13. PRIOR PERIOD RESTATEMENT

The financial statements for the prior quarter ended August 31, 2017 are revised to record the bifurcation of the derivative liability from the host Series B Secured Convertible Debentures issued on December 7, 2016, following further analysis of convertible debt instrument issued by the Company in Canadian dollars. The analysis was conducted during the preparation of annual financial statements for 2017.

The effect of changes in the financial statements is summarized as follows:

	Quarter ended	
	August 31, 2017	
	Prior to	
	Restatement	Restated
	\$	\$
<u>Consolidated Balance Sheet:</u>		
Secured convertible debentures, net of deferred financing costs	1,821,807	1,596,083
Derivative liabilities	224,637	472,592
Total Liabilities	2,525,321	2,547,552
Accumulated deficit	(29,659,794)	(29,682,025)
Total Stockholders' Deficiency	(1,983,537)	(2,005,768)
<u>Consolidated Statement of Operations and Comprehensive Loss</u>		
	Three months ended August 31, 2017	
	Prior to	
	Restatement	Restated
	\$	\$
Foreign currency translation (gain)	79,535	80,021
Total Operating Expenses	530,768	531,254
Loss from Operations	(507,120)	(507,606)
Change in fair value of derivative liabilities	157,034	122,967
Accretion	-	(94,134)
Other expense- Interest	(150,629)	(82,928)
Loss before Income Taxes	(500,715)	(561,701)
Net Loss	(500,715)	(561,701)
Comprehensive Loss	(498,653)	(559,639)
Loss per share-basic and diluted	(0.010)	(0.010)
<u>Consolidated Statement of Operations and Comprehensive Loss</u>		
	Nine months ended August 31, 2017	
Foreign currency translation (gain)	72,246	73,210

Total Operating Expenses	1,659,795	1,660,759
Loss from Operations	(1,571,826)	(1,572,790)
Change in fair value of derivative liabilities	664,413	718,667
Accretion	-	(249,405)
Other expense- Interest	(453,768)	(279,729)
Loss before Income Taxes	(1,361,181)	(1,383,257)
Net Loss	(1,361,181)	(1,383,257)
Comprehensive Loss	(1,337,323)	(1,359,399)
Loss per share-basic and diluted	(0.020)	(0.022)
<u>Consolidated Statement of Cash Flows</u>	Nine months ended	
	August 31, 2017	
Net loss	(1,361,181)	(1,383,257)
Foreign currency translation gain	72,246	73,210
Accretion	174,038	249,404
Change in fair value of derivative liabilities	(664,413)	(718,667)
Net cash used in operating activities	(1,380,962)	(1,380,962)

14. SUBSEQUENT EVENTS

Subsequent to the quarter the Company filed a prospectus to list its shares with the Canadian Securities Exchange (“CSE”).

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATION

THREE MONTHS ENDED AUGUST 31, 2018

The following discussion and analysis of the financial condition and results of Security Devices International, Inc. (also referred to as "we", "us", "our", "SDI", or the "Company"), should be read in conjunction with the Company's financial statements (and related notes) as at November 30, 2017.

The following discussion contains forward-looking statements, which are subject to risks and uncertainties and other factors that may cause SDI's results to differ materially from expectations. When reviewing the Company's forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. These include risk relating to market fluctuations, performance, strength of the North American and other world economies and foreign exchange fluctuations. These forward-looking statements speak only as of the date hereof. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update these forward-looking statements. The Company does have an ongoing obligation to disclose material information as it becomes available. The discussion also includes cautionary statements about these matters. You should read the cautionary statements made below as being applicable to all forward-looking statements wherever they appear in this document.

ITEM 1. BUSINESS

It is the Company's belief that the United States, along with most parts of the world are in the very early stages of a significant spike in the growth curve for "less-lethal" products. Most law enforcement agencies do not have a proper working knowledge of a less-lethal program in place. Rather they are using an assortment of less-lethal devices out of necessity for varying degrees of effectiveness with little coordination or approved tactical plans for their deployment. Law enforcement budget constraints usually play a role in this behavior. It is for this reason that unintended deaths of unarmed suspects at the hands of police departments throughout the country (and in fact throughout the world) continue to happen.

With a rise in social and civil unrest both here and abroad and with more and more of these incidents being caught on video and posted on social media, the pressure on law enforcement and governments to find reasonable and effective alternatives to lethal force is mounting daily. As a result, it is management's opinion that the less-lethal market will be one of the faster growing segment in the law enforcement, correctional services, crowd control and security services markets over the next decade.

Less-lethal weapons include a wide variety of products designed to disorient, slow down and stop would be assailants, rioters and other malfasants. In the Company's opinion, the less-lethal weapon that is growing the fastest in popularity and adoption is the 40mm launcher along with the various less-lethal munitions that can be fired from these launchers. These munitions include both impact rounds designed to stop an individual without causing permanent injury to payload rounds carrying a variety of powders and liquids including tear gas, pepper spray, DNA marking liquids, mal-odorants and other marking liquids and powders designed to identify instigators in a riot situation.

Historically, these munitions were fired from 37mm launchers, however, the industry has been moving to 40mm launchers due to the fact that the 40mm launcher barrel is rifled (while the 37mm is a smooth bore barrel less accurate munition) which allows the operator to more accurately fire the rounds at distances in excess of 100'. This makes the 40mm launcher an effective tool in a wide range of situations.

Additional less lethal munitions include 12 gauge and .68 caliber impact and chemical irritant projectiles. The 12 gauge has been a long-standing tool for law enforcement and correctional services, as almost all domestic patrol cars carry a shotgun to fire the 12 gauge munitions when required. The .68 caliber projectiles are fired from an air gun system for close range incidents where impact force is not the main objective with a subject, but chemical irritant munitions are necessary to stop an assailant.

History

Security Devices International Inc. (the “Company” or the “Corporation”) was incorporated on March 1, 2005. The Company began as a research and development company focused on the development of 40mm less-lethal ammunition.

The Company initiated with the development of a Wireless Electric Projectile (the “WEP”), named the Lektrox. The Company hired a ballistics engineering firm to collaborate in the development of the WEP.

Commencing in December 2008, the Joint Non-Lethal Weapons Directorate (“JNLWD”) of the US Department of Defense, an organization responsible for the development and coordination of non-lethal weapons activities within the United States, tested the WEP through its evaluation facility at Penn State University. An executive summary was released to the Company indicating a positive outcome.

In the fall of 2010, the Company underwent a change in the board of directors and management. This precipitated a change in the direction of the company as development of the WEP was discontinued and the company shifted its focus to a new product – the 40mm Blunt Impact Projectile (BIP). The Company concluded that the cost and time required to complete development and testing of the BIP were significantly less than that required to complete development and testing of the WEP. The goal was to develop a product that it could bring to market more quickly. The Company was able to exploit some of the patent pending technology of the WEP into the BIP. In 2011, the Company moved its engineering, intellectual property and production facilities to the Operator (the “BIP Manufacturer”) of an injection molding facility outside of Boston, Massachusetts.

The Blunt Impact Projectile (BIP) – A Transformative Technology

When the less-lethal industry was dominated by the 37mm launcher, a number of less-lethal companies developed “impact munition rounds” designed to “stop” an assailant. These rounds were nothing more than a piece of plastic, wood baton, rubber baton, or a piece of plastic with a piece of sponge rubber or foam rubber affixed to the head of the round.

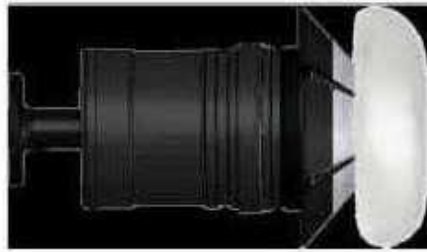
There were several problems with these 37mm rounds. First, they were inaccurate due to the lack of barrel rifling. Since most SWAT teams carry single shot launchers, a round that cannot be shot accurately is of little value. Second, because of their lightweight, they did not have much stopping power. Suspects that were “committed” would often “shake off” a direct hit. Finally, the rounds would bounce off walls or other hard surfaces which made them dangerous to use in confined areas such as a jail cell. Numerous corrections officers have been hurt by impact rounds ricocheting off of jail cell walls.

Security Devices International solved all three issues with the development of its “Blunt Impact Projectile” (BIP). The BIP was developed as an outgrowth of a research and development project to create a conductive electric device bullet (project name WEP – Wireless Electric Projectile).

In order to ensure that the projectile did not injure the targeted individual, SDI needed to develop a way to cushion the impact of the round upon contact with the target. The solution was a collapsible head that compressed upon impact. (See below). When it became clear that SDI did not have sufficient funds to complete development of the WEP, it was decided to use the collapsible head design to create an impact round. The hope was that with this new, state-of-the-art impact round, SDI could generate enough profitability that it would be able to complete development of the WEP.



Prior to Impact



At Impact

This collapsible head technology allowed SDI to build a heavier projectile that did not require a rubber or foam tip. This meant that it could take advantage of the rifling of the 40mm launcher. This made the BIP by far the most accurate round on the market in comparison to previous 37mm projectiles. The target for an impact round is to be a large muscle group such as the thigh muscle.

The gel collapsible head of the BIP spreads out upon impact, dispersing the energy over a larger area thus reducing blunt trauma to the subject. This allows the BIP round to be fired at close range on a target.

The Company believes that its patented collapsible head technology will transform the industry as law enforcement agencies recognize the tactical advantages of a less-lethal weapon that can be safely, accurately and effectively deployed at close range distances between 10 to 100 feet. SDI has been in discussions several industry players about licensing SDI's technology.

Q2 2018

During the quarter, the Company had sales of \$138,742 as compared to \$97,172 for the second quarter last year (+43%). Growth was driven primarily by adoption of our rounds by local and provincial authorities in Montreal for security operations surrounding the G7 Summit held on June 7-9, in La Malbaie, Quebec, Canada, increased activity on our e-commerce platform (signed up over 50 agencies since it went live in the fourth quarter of last year) and general market recognition of the superiority of SDI's Blunt Impact Projectile (BIP).

On April 16, 2018, the Company announced the signing of a Definitive Agreement with André Buys of South Africa to purchase certain registered patents and designs, provisional patents and designs, drawings, testing results, molds, prototype products and other intellectual property in exchange for cash and/or stock in the Company, as well as a stream of royalty payments to Mr. Buys. As part of the agreement, Mr. Buys joined the Company as Chief Technology Officer ("CTO") and will head up our Product Development & Test Center in South Africa.

These patents and related Intellectual Property ("IP") focus on a new less lethal delivery system that delivers chemical irritants from handgun-like 'Personal Security Devices (PSDs)'. Employing a shaped (finned) projectile, rather than a round ball, SDI expects to offer less lethal security devices that have the same or better accuracy than comparable conventional firearms. These new products will bring the same kind of less lethal options currently available only to the military, corrections and law enforcement agencies to a much broader range of users, including homeowners, private security guards and potentially schools. Management feels that there is significant market potential for these types of products in home defense and private security.

During the quarter, the Company received an additional patent for the payload carrying arrangement for a non-lethal projectile. This brings the total patents under the portfolio to seven.

Q3 2018

With the Company's previously announced acquisition of patents and related Intellectual Property ("IP"), SDI continues to focus and test their new less lethal platform that delivers chemical irritants from a handgun-like Personal Security Device. As its first product offering utilizing the new IP, the Company is planning the introduction of a small, light-weight, .68 caliber hand-held PSD equipped with a 7-round magazine and capable of accurately and effectively engaging a target at up to 60 feet – less lethally and without causing serious injury. Targeted at home owners and enthusiasts who want protection without the burdens of gun ownership, the Company has already secured a commitment for 1,000 PSD's from one of the leading distributors of firearms and accessories on the African continent.

During the quarter, the Company announced the addition of Paul Jensen to the SDI Board of Directors. Mr. Jensen, a graduate of the United States Military Academy at West Point, will bring his global network of contacts along with extensive product development experience to the Board as the Company expands outside of North America and continues to bring innovative security products to market.

Dean Thrasher was appointed Executive Chairman of the Company from his previous position as CEO and will be responsible for the public side of the business. Paul Jensen has been appointed Chief Executive Officer of the Company from his previous position as President & COO and will continue to steer our product development and move the Company into new markets that require less lethal platforms and munitions. Bryan Ganz has been appointed President of the Company from his previous position as Executive Chairman and will be responsible for capital markets, investor relations, and some of the larger partners.

During the quarter, the Company made a share issuance to Paul Jensen under his employment agreement announced August 28, 2017. SDI issued 298,880 common shares at a deemed price of \$0.1673 per share to satisfy the payment of USD \$50,000 due in July 2018. The shares are subject to a four-month hold period.

Mr. Jensen is a related party of SDI under Multilateral Instrument 61-101 (“MI 61-101”). SDI is exempt from the formal valuation requirement and shareholder approval requirement of MI 61-101 in connection with this issuance.

Products

SDI’s business is the development, manufacture and sale of less-lethal ammunition. This ammunition is used by the military, correctional services, police agencies, and private security for crowd control.

The Company has two commercially available product lines:

- a) The Company has developed the BIP, a blunt impact projectile which uses pain compliance to control a target. The Company has developed eight versions of the standard BIP, seven of which contain a payload and one of which is a cheaper cost, training round. A payload is an internal medium within the BIP, holding a liquid or powder substance.
- b) The Company offers a specified line of 12 gauge less lethal projectiles and irritants for law enforcement and correctional services agencies. The projectiles come in impact forms such as, rubber fins and a bean bag version.

Intellectual Property

Seven patent applications, six non-provisional and one provisional, have been filed by the Company with the U.S. Patent Office. The Patents have been granted on the six non-provisional patents. The Company also owns the trademark for the ‘BIP’.

As previously reported, on April 13, 2018, the Company acquired a portfolio of registered patents, provisional patents, and other intellectual property relating to air and/or gas fired long guns or pistols, including pump action launchers and munitions used with such pistols and long guns, including self-stabilizing shaped or “finned” rounds (the “Portfolio”). The Company is filing an additional series of non-provisional patents related to on-going development of these products and plans to file trademarks for both the devices and the projectile in Q3 2018.

Non-Provisional (granted patents):

- (a) Less-lethal Projectile: This issued patent relates to the Company’s distinctive collapsible ammunition head technology that absorbs kinetic energy of the projectile upon impact. The Corporation’s collapsible head is used in both the BIP and the WEP.
- (b) Electronic Circuitry for Incapacitating a Living Target: This issued patent relates to the electronic circuitry incapacitation system which forms part of the WEP. The patent describes an electronic circuit which provides an electrical incapacitation current to a living target.

(c) Less-lethal Wireless Stun Projectile System for Immobilizing a Target by Neuro-Muscular Disruption: This issued patent describes the process by which the WEP operates with its attachment system to halt a target through a neuro-muscular-disruption system.

(d) Autonomous Operation of a Less-lethal Projectile: This patent describes a motion sensing system within the WEP. The sensor will monitor movement of the target and enable the electrical output until the target is subdued. The electrical pulse is programmed for an exact time-frame to specifications of the user.

(e) Projectile: This invention relates to a non-lethal projectile to be fired using a paintball gun, and more particularly, but not exclusively, to an aerodynamic non-lethal projectile which is used for marking, inhibiting or administering medicinal or other chemical substances to live targets.

(f) Payload carrying arrangement for a non-lethal projectile: This Provisional patent relates to the process of carrying liquid and powder payloads in the head of the BIP munitions that upon impact release from the head and are dispersed upon the target.

Trademark:

(g) A trademark for the 'BIP' trade name has been issued from the United States Patent and Trademark Office under the number Reg. No. 5,339,826.

(h) A trademark for the "Byrna" trade name has been submitted to the United States Patent and Trademark Office under the number 88/057,866.

General

- As of August 31, 2018, SDI had both consultants and employees.
- SDI's offices are located at 107 Audubon Road, Bldg. 2, Suite 201 Wakefield, MA 01880.
- SDI's website is www.securitydii.com.

Going Concern

The Company has incurred a cumulative loss of \$32,057,536 from inception to August 31, 2018. The Company has funded operations through the issuance of capital stock, warrants and convertible debentures. The Company has started to generate revenue from operations. However, it still expects to incur significant losses before becoming profitable. The Company's future success is dependent upon its ability to raise sufficient capital or generate adequate revenue, to cover its ongoing operating expenses, and also to continue to develop and be able to profitably market its products. There can be no assurance that such financing will be available at all or on favorable terms. These factors raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty; such adjustments could be material.

Significant Quarterly Information

The following represents selected information of the Company for the most recently completed financial quarter ended August 31, 2018

	Three- month period August 31, 2018 (unaudited) \$	Three- month period August 31, 2017 (unaudited) (restated) \$
Net loss for the three- month period	(118,651)	(561,701)
Basic and diluted loss per share	(0.001)	(0.010)
Total assets	1,171,799	2,192,357
Total liabilities	1,553,136	1,865,734
Cash dividends per share	-	-

Results of Operations

SDI was incorporated on March 1, 2005 and for the period from inception to August 31, 2018 has not realized significant revenues. The company has started to generate revenue from operations. However, it still expects to incur significant expenses before becoming profitable.

Financial highlights (unaudited) for the period ending August 31, 2018 with comparatives are as follows:

Operating Results	For the three months ended August 31, 2018	For the three months ended August 31, 2017(Restated)
Sales	\$ 53,257	\$ 70,353
Cost of sales	\$ (29,302)	\$ (46,705)
Gross profit	\$ 23,955	\$ 23,648
Operating expenses	\$ (386,870)	\$ (531,254)
Other expenses -interest	\$ (32,946)	\$ (82,928)
Accretion	\$ (29,991)	\$ (94,134)
Change in fair value of derivative liabilities	\$ 307,201	\$ 122,967
Net Loss for Period	\$ (118,651)	\$ (561,701)
Loss per Share	\$ (0.001)	\$ (0.010)

Operating Results	For the nine months ended August 31, 2018	For the nine months ended August 31, 2017(Restated)
Sales	\$ 220,115	\$ 209,958
Cost of sales	\$ (148,515)	\$ (121,989)
Gross profit	\$ 71,600	\$ 87,969
Operating Expenses	\$ (1,087,897)	\$ (1,660,759)
Other expenses -interest	\$ (100,125)	\$ (279,729)
Accretion	\$ (88,102)	\$ (249,405)
Change in fair value of derivative liabilities	\$ 245,852	\$ 718,667
Net Loss for Period	\$ (958,672)	\$ (1,383,257)
Loss per Share	(\$0.010)	(\$0.024)

The Company's selected information for the quarter ended August 31, 2018 (unaudited) and November 30, 2017 (audited) are as follows:

	August 31, 2018	November 30, 2017
Total current assets	770,470	2,165,406
Total assets	1,171,799	2,192,357
Total current liabilities	1,553,136	973,558
Total liabilities	1,553,136	1,865,734
Stockholders' (deficiency) equity	(381,337)	326,623

Net loss for the three months ended August 31, 2018 was \$118,651 (\$0.001 per share) as compared to net loss of \$561,701 (\$0.010 per share) for the three-month period ended August 31, 2017. The major components of the change relate to:

During the quarter ended August 31, 2018, the Company expensed selling, general and administration expenses for \$385,556 in the three-month period ended August 31, 2018 as compared to \$433,759 for the three-month period ended August 31, 2017, thereby reflecting reduction in costs primarily in payroll and consulting. In addition, the Company recorded a gain in the change in fair value of derivative liabilities for \$307,201 for the quarter ended August 31, 2018 as compared to a gain of \$122,967 for the same period of prior year.

Cash Flows

Net cash used in operations for the nine months ended August 31, 2018, was \$1,057,996 as compared to \$1,380,962 used for the nine months ended August 31, 2017. The major components of change relate to:

The Company's inventory increased by \$2,435 in 2018 as compared to an increase of \$202,980 in 2017. This increase in inventory in prior year represents the investment in inventory available for sale in next period. Prepaid expenses and other receivables increased by \$96,803 during the nine-month period ended August 31, 2018 as compared to a decrease of \$31,534 for nine-month period ended August 31, 2017. Prepayments in current period were made to its product manufacturer and additionally for insurance.

Net cash flow from investing activities was \$(388,349) during the nine-month period ended August 31, 2018 as compared to \$(21,703) for the nine-month period ended August 31, 2017. The Company acquired patents for \$110,000 (prior period \$nil); made advance payments for property and equipment for \$180,000 (Prior period: \$nil) and purchased property and equipment for \$98,349 (prior period \$21,703).

Net cash flow from financing activities was outflow of \$(40,357) during the nine-month period ended August 31, 2018 as compared to inflow of \$1,437,716 for the nine-month period ended August 31, 2017. This increase in financing activities in 2017 was the net cash from convertible debentures raised during the prior period. The reduction in 2018 was the repayment of unsecured convertible debentures when they became due for repayment.

There was an overall decrease in cash of \$(1,491,142) during the nine-month period ended August 31, 2018 as compared to an increase in cash of \$62,068 during the nine-month period ended August 31, 2017.

Liquidity and Capital Resources

As at August 31, 2018, cash and cash equivalents was \$473,901, as compared to \$1,965,043 at November 30, 2017. This decrease is mainly attributable to the combination of factors mentioned above under heading "Cash Flows".

At August 31, 2018, the Company had a working capital deficit of \$782,666. The major components are as follows: cash and cash equivalents \$473,901; prepaid expenses and other receivables \$103,451; inventory for \$159,738; accounts receivable for \$33,380; secured convertible debt (due for repayment in June 2019) of \$966,406, derivative liabilities for \$290,382 and accounts payable and accrued liabilities of \$296,348.

At November 30, 2017, the Company had a working capital of \$1,191,848. The major components are as follows; cash and cash equivalents \$1,965,043; prepaid expenses and other receivables \$6,648; accounts receivable for \$36,412; inventory for \$157,303; derivative liability for \$539,860; unsecured convertible debentures for \$40,357 and accounts payable and accrued liabilities of \$393,341.

There are no assurances that the Company can continue to raise equity financing to fund its operations. SDI does not have any commitments or arrangements from any persons to provide SDI with any additional capital it may need. Without additional capital SDI will not be able to fund its anticipated capital requirements outlined above.

Off-balance sheet arrangements

The Company has no significant off-balance sheet arrangements at this time.

Transactions with related parties

The following transactions are in the normal course of operations and are measured at the amount of consideration established and agreed to by related parties.

Nine months ended August 31, 2018

As of August 31, 2018, there are no amounts receivable from related parties.

As of August 31, 2018, the Company had a payable of \$103,906 to related parties to be settled by issuance of stock.

Effective as of October 1, 2017, the Company entered into an employment agreement (the "Employment Agreement") with Paul Jensen pursuant to which Mr. Jensen serves as President and Chief Operating Officer and effective July 13, 2018 serves as CEO of the Company. By the terms of the Employment Agreement, Mr. Jensen will receive an annual salary of \$200,000, payable as follows. For the period beginning on October 1, 2017 and ending on June 30, 2018, Mr. Jensen shall receive quarterly payments of the Company's common stock, to be issued 15 days after the end of each three-month quarter. Commencing July 1, 2018, the Company will pay \$10,000 per month in cash and the balance in Company stock. At such time as the Company can pay the entire salary in cash and be cash positive on an operating basis, the entire monthly salary will be paid in cash. The Company expensed \$150,000 for the services for the nine months ended August 31, 2018.

The Company expensed \$34,875 for services provided by the CFO of the Company which was paid to a corporation in which the CFO has an ownership interest, in accordance with the consulting contract.

The Company expensed \$116,575 which includes \$18,000 for issuance of proportionate shares per his contract, for services provided by the CEO and effective July 13, 2018 providing services as executive chairman of the Company and which was paid to a corporation in which the CEO has an ownership interest, in accordance with the consulting contract (See also note 7).

On March 27, 2017, the board of directors had granted options to the CEO to acquire a total of 1,150,000 common shares. The Company expensed \$39,046 for the value of options which vested during this period.

In May 2018, the Company made a share issuance to NEIP under the consulting agreement announced on June 16, 2017. SDI issued 507,550 common shares at a price of \$0.12 per share to satisfy the payment of \$62,500 due in December 2017.

On April 13, 2018, the Company employed Mr. André Buys as the CTO with compensation of \$10,000 per month over a three-year period. The Company expensed \$46,667 during the nine-month period ended August 31, 2018. On April 13, 2018, the Company granted options to Mr. André Buys to acquire a total of 1,500,000 common shares. The Company expensed \$6,341 for the value of options which vested during this period. See also Note 7(a) for the agreement entered into with Mr. Buys.

Effective June 1, 2018 the Company entered into a consulting agreement (the "Consulting Agreement") with Bryan Ganz pursuant to which Mr. Ganz serves as President of the Company. By the terms of the Consulting Agreement, Mr. Ganz will be paid annually \$200,000 in the Company's common shares for his services and subject to stock exchange approval. The Common shares shall be issued quarterly, ending March 31, 2019. For the Company's fiscal third and fourth quarter the President shall be paid 500,000 common shares for each quarter. The Company accrued expenses \$72,573 being cost for services to be compensated by issuance of shares.

Effective December 1, 2017, the Company leased office premises at Wakefield, Massachusetts, USA for rent of \$700 per month from a corporation owned and controlled by a director of the Company. The Company expensed \$6,300 as office rent for the nine-months ended August 31, 2018. As of August 31, 2018, the Company has a payable for \$3,940 (August 31, 2017: \$nil) for the rent.

Nine months ended August 31, 2017

Effective July 21, 2016, Bryan Ganz was elected as a director of the Company. Prior to his appointment, effective May 1, 2016, the Company executed a one-year consulting agreement with Northeast Industrial Partners, LLC ("NEIP"), a Corporation in which the said director has an ownership interest. In January 2017, the Company issued 589,414 common shares at a price of \$0.1142 per share to satisfy the payment of USD \$50,000 due on November 15, 2016. In March 2017, the Company made the third share issuance and issued 503,251 common shares at a price of \$0.0994 per share to satisfy the payment of USD \$50,000 due on February 15, 2017. In May 2017, the Company made the fourth and final share issuance and issued 534,941 common shares at a price of \$0.0935 per share to satisfy the payment of USD \$50,000 due on May 15, 2017. Effective May 1, 2017, the Company and NEIP renewed the agreement for the period of time until such date as either of them terminates the original contract on not less than 15 days prior written notice to the other party. For services rendered by NEIP during the extension, SDI shall pay NEIP \$62,500 within 15 days following every consecutive three-month period during the extension. The Company accrued expense for \$62,500 for the quarter ended August 2017 and this expense was settled and paid subsequently to the quarter by issue of shares (see also Note 13-subsequent events). In addition, the Company executed a one-year back-office accounting and administration services agreement with NEIP effective January 1, 2017 to pay compensation of \$7,500 per month. The Company expensed \$60,000 for services provided during the nine-month period ended August 31, 2017.

The Company expensed \$27,000 for services provided by the CFO of the Company and \$32,300 for services provided by two Corporations in which the CEO has an ownership interest, in accordance with the consulting contract. In addition, the CEO was paid a salary of \$78,500 during the nine-month period ended August 31, 2017.

During the nine-month period ended August 31, 2017, the Company issued options to directors. The Company expensed \$169,970 for the value of options which vested during this period.

7. COMMITMENTS

a) Consulting agreements:

The non-independent directors of the Company executed consulting agreements with the Company on the following terms:

The Company executed a consulting agreement with a Corporation owned by the CEO and later designated executive chairman, effective July 1, 2018 providing services as executive chairman of the Company. The contract, unless renewed expires on March 31, 2019. During the service term, the Company will pay \$3,500 per month and in addition, be issued 180,000 common shares of the Company on a quarterly basis until the end of the term. Each quarterly installment is due the 15th day of the following month after the quarter. The common shares will be priced at the volume weighted average trading price per common share over the 20-day period proceeding the due date.

Effective as of October 1, 2017, the Company entered into an employment agreement (the "Employment Agreement") with Paul Jensen pursuant to which Mr. Jensen serves as President and Chief Operating Officer of the Company. By the terms of the Employment Agreement, Mr. Jensen will receive an annual salary of \$200,000, payable as follows. For the period beginning on October 1, 2017 and ending on June 30, 2018, Mr. Jensen shall receive quarterly payments of the Company's common stock, to be issued 15 days after the end of each three-month quarter. The shares issued shall be valued based upon the weighted average closing price of the Company's shares for the twenty (20) trading days prior to the end of the applicable quarter. Commencing July 1, 2018, the Company will pay \$10,000 per month in cash and the balance in Company stock. At such time as the Company can pay the entire salary in cash and be cash positive on an operating basis, the entire monthly salary will be paid in cash.

Effective December 1, 2017, the Company signed a twelve-month contract with a corporation owned and controlled by the CFO to pay annual compensation of \$42,000 for CFO services. The Company paid a retainer of \$10,500 and is committed to pay \$2,625 on monthly basis. Early termination of the contract by the Company without cause or change in control will attract a termination payment of \$20,000.

On April 13, 2018, the Company entered into a Purchase and Sale Agreement (the "Agreement") with André Buys, a resident of South Africa, pursuant to which the Company purchased from Mr. Buys a portfolio of registered patents, provisional patents, and other intellectual property relating to air and/or gas fired long guns or pistols, including pump action launchers and munitions used with such pistols and long guns, including self-stabilizing shaped or "finned" rounds (the "Portfolio"). As consideration for the Portfolio, the Company (i) paid Mr. Buys \$100,000, (ii) agreed to pay Mr. Buys either \$500,000 in cash or \$750,000 worth of Company stock within two years (the "Second Payment"), (iii) issued 1,500,000 options for shares of the Company's common stock to Mr. Buys with a strike price equal to the Company's stock price on April 13, 2018 and a trigger price of \$0.30, \$0.50 and \$1.00 for each batch of 500,000 options, respectively. The Company's stock price must close above the trigger price for 20 days in order for the option to be triggered. The options shall have a seven- year life from grant date and Andre Buys must remain employed by the Company for three years in order for the options or warrants to vest, and (iv) agreed to pay Mr. Buys certain royalty payments for sales of products by the Company using technology covered by the Portfolio. Until the earlier of, the second anniversary or the date the Second Payment is made, the royalty will be 10% of the Net Sales Price ("NSP"). The royalty will then be reduced to 4% till the sixth anniversary, 3% till the eighth anniversary, and 2% till the last expiration date of any of the intellectual property in the Portfolio. Until the royalty exceeds \$25,000 per year, the Company is committed to a minimum payment of \$25,000 per year effective on the earlier of one year from closing or upon Andre Buys relocation to Boston. In the event that the Company fails to make the Second Payment, the Portfolio would revert to Mr. Buys, but the Company would retain perpetual, irrevocable, exclusive and non-exclusive licenses to use technology with respect to the Portfolio and any technology developed within two years of April 13, 2018. The Company has not recorded any amount related to the Second Payment. In addition, the Company has hired Mr. Buys as its Chief Technology Officer at a starting salary of \$10,000 per month. The Company agrees that it will not terminate Andre Buys except for cause prior to April 2021. As a result, the minimal commitment relating to the employment contract is \$320,000 payable over a period of 32 months.

Effective June 1, 2018 the Company entered into a consulting agreement (the “Consulting Agreement”) with Bryan Ganz pursuant to which Mr. Ganz serves as President of the Company. By the terms of the Consulting Agreement, Mr. Ganz will be paid annually \$200,000 in the Company’s common shares for his services and subject to stock exchange approval. The common shares shall be issued quarterly, ending March 31, 2019. For the Company’s fiscal third and fourth quarter the President shall be paid 500,000 common shares for each quarter. Commencing on the Company’s first quarter of 2019, Mr. Ganz will be issued an ongoing 250,000 common shares for his services.

Effective August 24, 2018, the Company entered into an agreement with a New Mexico limited liability company (“Vendor”) whereby the Vendor will provide range of third- party logistical services in including (1) document review; (2) product testing; (3) sourcing of packaging and accessories; (4) product assembly and kitting; (5) order fulfillment; (6) shipping compliance review; (7) management of returns and warranty claims. Upon the signing of the agreement, the Company paid the vendor a one-time signing fee of \$20,000. Milestone payments totalling \$75,000 are due under this agreement between September 1, 2018 to November 1, 2018.

b) Lease commitments

The Company has commitments for leasing office premises in Wakefield, Massachusetts, USA to June 27, 2019, at a monthly rent of \$700.

EXCLUSIVE SUPPLY AND PURCHASE AGREEMENTS

As of August 31, 2018, the accounts receivable from one customer represents approximately 73% of accounts receivable (August 31, 2017 – 62% from one customers).

For the nine- month period ended August 31, 2018, one customer represented approximately 44% of total revenues (August 31, 2017 - 51% from two customers).

The Company entered a Development, Supply and Manufacturing Agreement with the BIP manufacturer on August 1, 2017. This agreement provides the Company to order and purchase only from the BIP manufacturer certain BIP assemblies and components for use by the Company to produce less-lethal and training projectiles as described in the agreement in North America. The agreement is for a term of four years with an automatic extension for additional one- year terms if neither party has given written notice of termination at least sixty (60) days prior to the end of the then- current term.

The Company entered a License and Supply Agreement with Safariland, LLC on May 1, 2017. This agreement provides the Company to license and sell only to Safariland, LLC for certain BIP standard payloads for integration with and production of certain less-lethal impact munitions in North America. This agreement is for a term of four years with an automatic extension for an additional one-year term if neither party have given written notice of termination at least ninety (90) days prior to the end of the then-current term.

Mine Safety Disclosures

Not applicable.

Revenue Recognition

The Company's revenue recognition policies follow common practice in the manufacturing industry. The Company records revenue when it is realized, or realizable and earned. The Company considers revenue to be realized, or realizable and earned, when the following revenue recognition requirements are met: persuasive evidence of an arrangement exists; the products or services have been accepted by the customer via delivery or installation acceptance; the sales price is fixed or determinable; and collectability is probable. For product sales, the Company determines that the earnings process is complete when title, risk of loss and the right to use product has transferred to the customer.

Outstanding share data

As of October 12, 2018, the Company had 94,494,088 issued and outstanding shares of common stock.

Risk Factors

Series B secured convertible debentures (Subordinate Secured Convertible Debentures)

On December 7, 2016, the Company entered a securities purchase agreement with several accredited investors to sell \$1,500,000 of 10% senior secured convertible notes, convertible into shares of the Company's common stock, in a private placement pursuant to Regulation D under the Securities Act of 1933. Concurrent with the sale of the Secured Notes, CAD\$1,363,000 (\$1,015,026) of the Company's outstanding Unsecured Debentures, were exchanged for an equal principal amount of the Subordinate Secured Debentures and an additional CAD\$36,000 (\$26,809) of Subordinated Secured Debentures were issued in satisfaction of a portion of the accrued interest on the Unsecured Debentures. The Company settled the debt with the Senior Secured Notes during the year and the Subordinated Secured Debentures remain outstanding and mature on June 6, 2019, unless converted or extended and are secured against the undertaking, property and assets of the Company including its patents. Inability to repay the secured debt on maturity, if the debt is neither converted nor extended, will result in the financial condition of the Company to be materially adversely affected.

Additional Financing

The Company does not have adequate revenue to fund all of its operational needs and may require additional financing to continue its operations if it is unable to generate substantial revenue growth. There can be no assurance that such financing will be available at all or on favorable terms. Failure to generate substantial revenue growth may result in the Company looking to obtain such additional financing could result in delay or indefinite postponement of the Company's deployment of its products, resulting in the possible dilution. Any such financing will dilute the ownership interest of the Company's shareholders at the time of the financing and may dilute the value of their shareholdings.

General Venture Company Risks

The common shares must be considered highly speculative due to the nature of the Company's business, the early stage of its deployment, its current financial position and ongoing requirements for capital. An investment in the common shares should only be considered by those persons who can afford a total loss of investment and is not suited to those investors who may need to dispose of their investment in a timely fashion. Investors should consult with their own professional advisors to assess the legal, financial and other aspects of an investment in common shares.

Uncertainty of Revenue Growth

There can be no assurance that the Company can generate substantial revenue growth, or that any revenue growth that is achieved can be sustained. Revenue growth that the Company has achieved or may achieve may not be indicative of future operating results. In addition, the Company may increase further its operating expenses in order to fund increase its sales and marketing efforts and increase its administrative resources in anticipation of future growth. To the extent that increases in such expenses precede or are not subsequently followed by increased revenues, the Company's business, operating results and financial condition will be materially adversely affected.

Dependence on Management and Key Personnel

The Company is dependent on certain members of its management. The loss of the services of one or more of them could adversely affect the Company. The Company's ability to maintain its competitive position is dependent upon its ability to attract and retain highly qualified managerial, specialized technical, manufacturing, sales and marketing personnel. There can be no assurance that the Company will be able to continue to recruit and retain such personnel. The inability of the Company to recruit and retain such personnel would adversely affect the Company's operations and product development.

Dependence on Key Suppliers

The Company may be able to purchase certain key components of its products from a limited number of suppliers. Failure of a supplier to provide sufficient quantities on favorable terms or on a timely basis could result in possible lost sales.

Product Liability

The Company 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. If its products fail to perform as warranted and it fails to quickly resolve product quality or performance issues in a timely manner, sales may be lost and it may be forced to pay damages. Any failure to meet customer requirements could materially affect its business, results of operations and financial condition. The occurrence of product defects and the inability to correct errors could result in the delay or loss of market acceptance of its products, material warranty expense, diversion of technological and other resources from its product development efforts, and the loss of credibility with customers, manufacturer's representatives, distributors, value added resellers, systems integrators, original equipment manufacturers and end-users, any of which could have a material adverse effect on the Company's business, operating results and financial conditions.

The Company currently has general liability insurance that includes product liability coverage. There is no assurance this insurance policy will cover all potential claims which may have a material adverse effect on the business or financial condition of the Company. A product recall could have a material adverse effect on the business or financial condition of the Company.

Strategic Alliances

The Company relies upon, and expects to rely upon, strategic alliances with original equipment manufacturers for the manufacturing and distribution of its products. There can be no assurance that such strategic alliances can be achieved or will achieve their goals.

Marketing and Distribution Capabilities

In order to commercialize its technology, the Company must either acquire or develop an 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 market any of its products, the Company must either acquire or develop a sales and distribution infrastructure. The acquisition or development of a sales and distribution infrastructure would require substantial resources, which may divert the attention of its management and key personnel and defer its product development and deployment efforts. To the extent that the Company enters into marketing and sales arrangements with other companies, its revenues will depend on the efforts of others. These efforts may not be successful. If the Company fails to develop substantial sales, marketing and distribution channels, or to enter into arrangements with third parties for those purposes, it will experience delays in product sales and incur increased costs.

Rapid Technological Development

The markets for the Company's products and services are characterized by rapidly changing technology and evolving industry standards, which could result in product obsolescence or short product life cycles. Accordingly, the Company's success is dependent upon its ability to anticipate technological changes in the industries it serves and to successfully identify, obtain, develop and market new products that satisfy evolving industry requirements. There can be no assurance that the Company will successfully develop new products or enhance and improve its 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 the Company's products or which render the products currently sold by the Company obsolete or less marketable. Regardless of the Industry as a whole, the less lethal sector moves somewhat slower in the adaptation and integration of new products.

The Company must commit significant resources to developing new products before knowing whether its investments will result in products the market will accept. To remain competitive, the Company may be required to invest significantly greater resources than currently anticipated in research and development and product enhancement efforts and result in increased operating expenses.

Competition

The Company's industry is highly competitive and composed of many domestic and foreign companies. The Company has experienced and expects to continue to experience, substantial competition from numerous competitors whom it expects 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. Competitors may be able to respond more quickly than the Company to changes in end-user requirements and devote greater resources to the enhancement, promotion and sale of their products.

Regulation

The Company is subject to numerous federal, provincial, state and local environmental, health and safety legislation and measures relating to the manufacture of ammunition. There can be no assurance that the Company will not experience difficulties with its efforts to comply with applicable regulations as they change in the future or that its continued compliance efforts (or failure to comply with applicable requirements) will not have a material adverse effect on the Company's results of operations, business, prospects and financial condition. The Company's continued compliance with present and changing future laws could restrict the Company's ability to modify or expand its facilities or continue production and could require the Company to acquire costly equipment or to incur other significant expense.

Intellectual Property

The Company's ability to compete effectively will depend, in part, on its ability to maintain the proprietary nature of its technology and manufacturing processes. Although the Company considers certain of its product designs as well as manufacturing processes involving certain of its products to be proprietary, patents or copyrights do not protect all design and manufacturing processes. The Company has adopted procedures to protect its intellectual property and maintain secrecy of its confidential business information and trade secrets. However, there can be no assurance that such procedures will afford complete protection of such intellectual property, confidential business information and trade secrets. There can be no assurance that the Company's competitors will not independently develop technologies that are substantially equivalent or superior to the Company's technology.

To protect the Company's intellectual property, it may become involved in litigation, which could result in substantial expenses, divert the attention of its management, cause significant delays and materially disrupt the conduct of its business.

Infringement of Intellectual Property Rights

While the Company believes that its products and other intellectual property do not infringe upon the proprietary rights of third parties, its commercial success depends, in part, upon the Company not infringing intellectual property rights of others. A number of the Company's 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 the Company. Some of these patents may grant very broad protection to the owners of the patents. The Company has not undertaken a review to determine whether any existing third-party patents or the issuance of any third-party patents would require the Company to alter its technology, obtain licenses or cease certain activities. The Company may become subject to claims by third parties that its technology infringes their intellectual property rights due to the growth of products in its target markets, the overlap in functionality of those products and the prevalence of products. The Company may become subject to these claims either directly or through indemnities against these claims that it provides to end-users, manufacturer's representatives, distributors, value added resellers, system integrators and original equipment manufacturers.

Litigation may be necessary to determine the scope, enforceability and validity of third party proprietary rights or to establish the Company's proprietary rights. Some of its competitors have, or are affiliated with companies having, substantially greater resources than the Company 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 the Company. 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 the Company to significant liabilities and equitable remedies, including injunctions, require the Company to enter into costly royalty or licensing agreements and require the Company to modify or stop using infringing technology.

The Company may be prohibited from developing or commercializing certain technologies and products unless it obtains a license from a third party. There can be no assurance that it will be able to obtain any such license on commercially favorable terms or at all. If it does not obtain such a license, it could be required to cease the sale of certain of its products.

Health and Safety

Health and safety issues related to its products may arise that could lead to litigation or other action against the Company or to regulation of certain of its product components. The Company may be required to modify its technology and may not be able to do so. It may also be required to pay damages that may reduce its profitability and adversely affect its financial condition. Even if these concerns prove to be baseless, the resulting negative publicity could affect the Company's ability to market certain of its products and, in turn, could harm its business and results from operations.

Stress in the global financial system may adversely affect the Company's operations in ways that may be hard to predict or to defend against

Recent events have demonstrated that businesses and industries throughout the world are very tightly connected to each other. Thus, events seemingly unrelated to the Company, or to its industry, may adversely affect its finances or operations in ways that are hard to predict or defend against. For example, credit contraction in financial markets may hurt the Company's ability to access credit when it is needed or rapid changes in foreign exchange rates may adversely affect financial results. Finally, a reduction in credit, combined with reduced economic activity, may adversely affect businesses and industries that collectively constitute a significant portion of the Company's customer base. As a result, these customers may need to reduce their purchases of the Company's products, or there may be greater difficulty in receiving payment for the products that these customers purchase from the Company. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on the business, operating results, and financial condition.

Insurance and Uninsured Risks

The Company's business is subject to a number of risks and hazards including industrial accidents, labor disputes and changes in the regulatory environment. Such occurrences could result in damage to equipment, personal injury or death, monetary losses and possible legal liability. Although the Company maintains liability insurance in amounts which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company may elect not to insure against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a materially adverse effect upon its financial position.

Conflicts of Interest

Certain directors and officers of the Company are or may become associated with other companies in the same or related industries which may give rise to conflicts of interest. Directors who have a material interest in any person who is a party to a material contract or a proposed material contract with the Company are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors and the officers are required to act honestly and in good faith with a view to the best interests of the Company. The directors and officers of the Company have either other full-time employment or other business, or time restrictions placed on them and accordingly, the Company will not be the only business enterprise of these directors and officers.

Dividend Policy

The Company has not paid dividends in the past and has no plans to pay dividends for the foreseeable future. The future dividend policy of the Company will be determined by its directors.

Lack of Active Market

There can be no assurance that an active market for the common shares will continue and any increased demand to buy or sell the common shares can create volatility in price and volume.

Market Price of Common Shares

There can be no assurance that an active market for the common shares will be sustained. Securities of small and midcap companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include global economic developments and market perceptions of the attractiveness of certain industries. The price per common share is also likely to be affected by change in the Company's financial condition or results of operations as reflected in its quarterly filings. Other factors unrelated to the performance of the Company that may have an effect on the price of common shares include the following: the extent of analytical coverage available to subscribers concerning the business of the Company may be limited if investment banks with research capabilities do not follow the Company's securities; lessening in trading volume and general market interest in the Company's securities may affect a subscriber's ability to trade significant numbers of common shares, the size of the Company's public float may limit the ability of some institutions to invest in the Company's securities; a substantial decline in the price of the common shares that persists for a significant period of time could cause the Company's securities to be delisted from the exchange, further reducing market liquidity. If an active market for the common shares does not continue, the liquidity of a subscriber's investment may be limited, and the price of the common shares may decline. If such a market does not develop, subscribers may lose their entire investment in the common shares.

Political Regulatory Risks

Any changes in government policy may result in changes to laws affecting the sale of the Company's products. This may affect the Company's ability to ship product in the future. The possibility that future governments may adopt substantially different policies, may also affect the Company's operations. Local governments in all countries the Company deals with issue end user certificates to purchase or receive live ammunition from the Company. It is the decision of these countries in the Middle East, the United States, Canada, Europe, and the Baltics whether or not they will take possession or purchase such munitions.

Dividends

The Company has not, since the date of its incorporation, declared or paid any dividends on its Common Shares and does not currently intend to pay dividends. Earnings, if any, will be retained to finance further growth and development of the business of the Company.

PART II

Legal proceedings

None

Item 4. Controls and Procedures.

(a) SDI maintains a system of controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (“1934 Act”), is recorded, processed, summarized and reported, within time periods specified in the SEC’s rules and forms and to ensure that information required to be disclosed by SDI in the reports that it files or submits under the 1934 Act, is accumulated and communicated to SDI’s management, including its Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of August 31, 2018, SDI’s Principal Executive Officer and Principal Financial Officer evaluated the effectiveness of the design and operation of SDI’s disclosure controls and procedures. Based on that evaluation, SDI’s Principal Executive Officer and Principal Financial Officer concluded that SDI’s disclosure controls and procedures were not effective due to the following material weakness:

Inherent in any small business is the pervasive problem involving segregation of duties. Since SDI has a small accounting department, segregation of duties cannot be completely accomplished at this stage in its corporate lifecycle.

In order to correct the foregoing material weakness, we have taken and are taking the following remediation measures that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting:

- We have several Directors with business experience and spending time with the business.
- We have established an audit committee of our board of directors. The audit committee will provide oversight of our accounting and financial reporting;

Accordingly, SDI’s management has added compensating controls to reduce and minimize the risk of a material misstatement in SDI’s annual and condensed interim consolidated financial statements.

(b) *Changes in Internal Controls.* There were no changes in SDI’s internal control over financial reporting during the quarter ended August 31, 2018 that materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

Exhibits

[31.1](#) [Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Dean Thrasher.](#)

[31.2](#) [Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Rakesh Malhotra.](#)

[32](#) [Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Dean Thrasher and Rakesh Malhotra .](#)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SECURITY DEVICES INTERNATIONAL, INC.

Date: October 15, 2018

By: /s/ Paul Jensen
Paul Jensen, Principal Executive Officer

Date: October 15, 2018

By: /s/ Rakesh Malhotra
Rakesh Malhotra, Principal
Financial and Accounting Officer

CERTIFICATIONS

I, Paul Jensen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Security Devices International, Inc.;
2. Based on my knowledge, this report, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 15, 2018

/s/ Paul Jensen

Paul Jensen,
Principal Executive Officer

CERTIFICATIONS

I, Rakesh Malhotra, certify that;

1. I have reviewed this quarterly report on Form 10-Q of Security Devices International, Inc.;
2. Based on my knowledge, this report, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 15, 2018

/s/ Rakesh Malhotra
Rakesh Malhotra,
Principal Financial Officer

In connection with the quarterly report of Security Devices International, Inc., (the “Company”) on Form 10-Q for the quarter ended August 31, 2018 as filed with the Securities and Exchange Commission (the “Report”) Paul Jensen, the Principal Executive Officer of the Company and Rakesh Malhotra, the Principal Financial Officer of the Company, certify pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the company.

October 15, 2018

/s/ Paul Jensen
Paul Jensen, Principal Executive Officer

October 15, 2018

/s/ Rakesh Malhotra
Rakesh Malhotra, Principal Financial Officer
