

**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 **May 31, 2019**

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: **(978) 868-5011**

**N/A**

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

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

<b><u>Title of each class</u></b>	<b><u>Trading symbol(s)</u></b>	<b><u>Name of each exchange on which registered</u></b>
Common Stock, par value \$0.001 per share	SDEV	OTC QB
Common Stock, par value \$0.001 per share	SDZ.CN	Canadian Securities Exchange

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 (&sect;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 August 2, 2019, the Company had 104,156,775 issued and outstanding shares of common stock.**

SECURITY DEVICES INTERNATIONAL, INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2019

(Amounts expressed in US Dollars)  
(Unaudited)

TABLE OF CONTENTS

	<u>Page No</u>
<a href="#">Condensed Interim Consolidated Balance Sheets as at May 31, 2019 and November 30, 2018</a>	<u>1</u>
<a href="#">Condensed Interim Consolidated Statements of Operations and Comprehensive Loss for the six months and three months ended May 31, 2019 and 2018</a>	<u>2</u>
<a href="#">Condensed Interim Consolidated Statements of Cash Flows for the six months ended May 31, 2019 and 2018</a>	<u>3</u>
<a href="#">Condensed Interim Consolidated Statements of Changes in Stockholders' (Deficiency) Equity for the six months ended May 31, 2019 and 2018</a>	<u>4</u>
<a href="#">Notes to Condensed Interim Consolidated Financial Statements</a>	<u>5-21</u>

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**SECURITY DEVICES INTERNATIONAL, INC.**  
**Condensed Interim Consolidated Balance Sheets**  
**As at May 31, 2019 and November 30, 2018**  
**(Amounts expressed in US Dollars) (Unaudited)**

	May31, 2019 \$	November 30, 2018 \$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	738,714	1,182,387
Accounts receivable	71,008	18,914
Inventory (Note 10)	587,476	129,121
Prepaid expenses and other receivables (Note 13)	<u>807,232</u>	<u>901,247</u>
Total Current Assets	2,204,430	2,231,669
Patent rights (Note 12)	102,668	106,334
Deposit for equipment (Note 3)	227,781	205,664
Property and equipment (Note 3)	<u>247,404</u>	<u>113,418</u>
<b>TOTAL ASSETS</b>	<u><u>2,782,283</u></u>	<u><u>2,657,085</u></u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 6)	928,103	397,309
Deferred revenue	38,776	-
Secured convertible debentures (Note 9)	-	978,361
Convertible debentures (Note 9)	1,590,757	-
Derivative liabilities (Note 9)	<u>310,539</u>	<u>957,301</u>
Total Current Liabilities	2,868,175	2,332,971
Long term convertible notes (Note 9)	-	<u>167,077</u>
Total Liabilities	<u>2,868,175</u>	<u>2,500,048</u>
Going Concern (Note 2)		
Related Party Transactions (Note 6)		
Commitments (Note 7)		
Subsequent Events (Note 14)		
<b>STOCKHOLDERS' (DEFICIENCY) EQUITY</b>		
Capital stock (Note 4)		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, Nil issued and outstanding (November 30, 2018 - nil)		
Common stock, \$0.001 par value 300,000,000 shares authorized, 104,156,775 issued and outstanding (November 30, 2018: 101,976,900)	104,157	101,977
Additional paid-in capital	34,707,208	33,341,695
Shares to be issued	20,000	-
Accumulated deficit	(34,854,841)	(33,252,338)
Accumulated other comprehensive loss	<u>(62,416)</u>	<u>(34,297)</u>
Total Stockholders' (Deficiency) Equity	<u>(85,892)</u>	<u>157,037</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIENCY) EQUITY</b>	<u><u>2,782,283</u></u>	<u><u>2,657,085</u></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 Six Months and Three Months Ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars) (Unaudited)**

	For the six months ended May 31, 2019 \$	For the six months ended May 31, 2018 \$	For the three months ended May 31, 2019 \$	For the three months ended May 31, 2018 \$
SALES	116,876	166,858	105,769	138,742
COST OF SALES	(80,833)	(119,213)	(75,284)	(98,472)
GROSS PROFIT	36,043	47,645	30,485	40,270
EXPENSES:				
Depreciation (Note 3)	17,021	6,759	7,843	3,406
Amortization of patent rights (Note 12)	3,666	-	1,833	-
Foreign currency translation gain	(15,721)	(11,600)	(29,254)	(19,627)
Selling, general and administration	1,826,861	705,868	728,893	415,425
TOTAL OPERATING EXPENSES	1,831,827	701,027	709,315	399,204
LOSS FROM OPERATIONS	(1,795,784)	(653,382)	(678,830)	(358,934)
Accretion (Note 9)	(305,060)	(58,111)	(202,202)	(29,363)
Change in fair value of derivative liabilities (Note 9)	645,767	(61,349)	250,337	(62,740)
Other expense- Interest (Note 9)	(147,426)	(67,179)	(88,036)	(33,272)
LOSS BEFORE INCOME TAXES	(1,602,503)	(840,021)	(718,731)	(484,309)
Income taxes	-	-	-	-
NET LOSS	(1,602,503)	(840,021)	(718,731)	(484,309)
Foreign exchange translation adjustment for the period	(28,119)	(2,253)	(24,379)	(1,679)
COMPREHENSIVE LOSS	(1,630,622)	(842,274)	(743,110)	(485,988)
Loss per share - basic and diluted	(0.016)	(0.009)	(0.007)	(0.005)
Weighted average number of common shares outstanding	103,040,621	93,156,427	103,632,174	93,295,626

See accompanying notes to the condensed interim consolidated financial statements.

**SECURITY DEVICES INTERNATIONAL, INC.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**For the Six Months Ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars) (Unaudited)**

	For the six months ended May 31, 2019	For the six months ended May 31, 2018
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	(1,602,503)	(840,021)
Items not involving cash:		
Stock-based compensation expense (included in selling, general and administration expenses)	164,910	35,582
Accretion	305,060	58,111
Foreign currency translation gain	(15,721)	(11,600)
Change in fair value of derivative liabilities	(645,767)	61,349
Issue of common shares for services	314,339	162,500
Shares to be issued for services	20,000	-
Issue of convertible debentures for services	35,000	-
Depreciation	17,021	6,759
Amortization of patent rights	3,666	-
Changes in non-cash working capital:		
Accounts receivable	(52,656)	(95,443)
Prepaid expenses and other receivables	93,663	(132,160)
Deferred revenue	38,776	-
Inventory	(460,053)	(21,848)
Accounts payable and accrued liabilities	532,820	(107,361)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(1,251,445)</b>	<b>(884,132)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of patents	-	(110,000)
Deposit for equipment	(22,117)	-
Purchase of property and equipment	(150,956)	(11,114)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(173,073)</b>	<b>(121,114)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from convertible debentures	2,045,265	-
Repayment of secured convertible debentures	(1,035,930)	-
Repayment of unsecured convertible debentures	-	(40,357)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>1,009,335</b>	<b>(40,357)</b>
Effects of foreign currency exchange rate changes	(28,490)	(639)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS FOR THE PERIOD</b>	<b>(443,673)</b>	<b>(1,046,242)</b>
Cash and cash equivalents, beginning of period	1,182,387	1,965,043
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>738,714</b>	<b>918,801</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS:</b>		
INCOME TAXES PAID	-	-
INTEREST PAID	67,007	67,179

See accompanying notes to the condensed interim consolidated financial statements.

SECURITY DEVICES INTERNATIONAL, INC.  
**Condensed Interim Consolidated Statement of Changes in Stockholders' (Deficiency) Equity**  
**For the Six Months ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars) (Unaudited)**

	Number of Common Shares #	Common Shares Amount \$	Additional Paid-in Capital \$	Shares to be Issued \$	Accumulated Deficit \$	Accumulated Other Comprehensive Loss \$	Total \$
<b>Balance as of</b>							
<b>November</b>							
<b>30,2017</b>	93,014,134	93,014	31,365,097	-	(31,098,864)	(32,624)	326,623
Stock-based compensation	-	-	35,582	-	-	-	35,582
Issue of common shares for services	1,181,074	1,181	161,319	-	-	-	162,500
Net loss for the period	-	-	-	-	(840,021)	-	(840,021)
Foreign currency translation	-	-	-	-	-	(2,253)	(2,253)
<b>Balance as of</b>							
<b>May31,2018</b>	<u>94,195,208</u>	<u>94,195</u>	<u>31,561,998</u>	<u>-</u>	<u>(31,938,885)</u>	<u>(34,877)</u>	<u>(317,569)</u>
<b>Balance as of</b>							
<b>November</b>							
<b>30,2018</b>	101,976,900	101,977	33,341,695	-	(33,252,338)	(34,297)	157,037
Stock-based compensation	-	-	164,910	-	-	-	164,910
Shares issued for services	2,179,875	2,180	312,159	-	-	-	314,339
Shares to be issued	-	-	-	20,000	-	-	20,000
Issuance of warrants	-	-	888,444	-	-	-	888,444
Net loss for the period	-	-	-	-	(1,602,503)	-	(1,602,503)
Foreign currency translation	-	-	-	-	-	(28,119)	(28,119)
<b>Balance as of</b>							
<b>May31,2019</b>	<u>104,156,775</u>	<u>104,157</u>	<u>34,707,208</u>	<u>20,000</u>	<u>(34,854,841)</u>	<u>(62,416)</u>	<u>(85,892)</u>

See accompanying notes to the condensed interim consolidated financial statements.

**SECURITY DEVICES INTERNATIONAL, INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the Period Ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars)(Unaudited)**

1. BASIS OF PRESENTATION

The accompanying unaudited condensed 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 unaudited condensed 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, 2018. In the opinion of management, the accompanying unaudited condensed interim consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary to fairly state the financial position of the Company at May 31, 2019 and November 30, 2018, the results of its operations for the six and three month periods ended May 31, 2019 and May 31, 2018, and its cash flows for the six month periods ended May 31, 2019 and May 31, 2018. The results of operations for the six and three month periods ended May 31, 2019 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. On March 1, 2018, the Company acquired all the shares of a company in South Africa, Byrna South Africa (Pty) Ltd. The condensed unaudited interim consolidated financial statements for the period ended May 31, 2019 include the accounts of Security Devices International, Inc., and its subsidiaries Security Devices International Canada Corp. and Byrna South Africa (Pty) Ltd. 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 12 gauge less-lethal products, and a .68 caliber handheld 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 \$34,854,841 from inception to May 31, 2019. 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 revenue will be generated or 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**  
**For the Period Ended May 31, 2019 and 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

	May 31, 2019		November 30, 2018	
	Cost \$	Accumulated Amortization \$	Cost \$	Accumulated Amortization \$
Computer equipment and software	80,091	50,978	77,382	46,837
Furniture and fixtures	22,722	19,098	20,998	18,763
Leasehold improvements	26,471	26,471	26,471	26,471
Moulds	438,122	223,455	291,599	210,961
	<u>567,406</u>	<u>320,002</u>	<u>416,450</u>	<u>303,032</u>
Net carrying amount		\$ 247,404		\$ 113,418
Depreciation expense for six- month period	\$ 17,021	(May 31, 2019)	\$ 6,759	(May 31, 2018)

As of May 31, 2019, the Company has deposits of \$227,781 (November 30, 2018-\$205,664) with vendors primarily for supply of moulds and equipment. As of May 31, 2019, the vendors had not completed the supply of these moulds and equipment.



**SECURITY DEVICES INTERNATIONAL, INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the Period Ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars)**  
**(Unaudited)**

4. CAPITAL STOCK

a) Authorized

300,000,000\* 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.

\* On March 21, 2019, 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 200,000,000 to 300,000,000 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

104,156,775 common shares (November 30, 2018: 101,976,900 common shares)

**SECURITY DEVICES INTERNATIONAL, INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the Period Ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars)**  
**(Unaudited)**

4. CAPITAL STOCK-Cont'd

c) Changes to Issued Share Capital

Six months ended May 31, 2019

In January 2019, the Company made a share issuance to Paul Jensen ("Jensen") pursuant to his employment agreement. The Company issued 134,938 common shares at a price of \$0.1482 per share to satisfy the payment of \$20,000, due January 15, 2019.

In January 2019, the Company made a share issuance to Bryan Ganz ("Ganz") pursuant to a consulting agreement. The Company issued 500,000 common shares at a price of \$0.1482 for a total consideration of \$74,100, due December 15, 2018.

In January 2019, the Company made a share issuance to a corporation owned and controlled by Dean Thrasher ("Thrasher"), executive chairman of the Company, pursuant to a consulting agreement. The Company issued 180,000 common shares at a price of \$0.1482 for a total consideration of \$26,676 due January 15, 2019.

In January 2019, the Company made a share issuance to Lisa Wager ("Wager"), the Chief Legal Officer ("CLO"), pursuant to a consulting agreement. The Company issued 166,666 common shares at a price of \$0.1482 for a total consideration of \$24,700, due January 15, 2019.

In January 2019, the Company made a share issuance to Andre J. Buys Sr. ("Buys"), pursuant to a consulting agreement. The Company issued 134,938 common shares at a price of \$0.1482 per share to satisfy the payment of \$19,998 due January 15, 2019.

On April 1, 2019, the Company made a share issuance to Ganz, pursuant to a consulting agreement. The Company issued 333,333 common shares at a price of \$0.14 per share to satisfy payment for \$46,665, due April 15, 2019.

On April 1, 2019, the Company made a share issuance to Wager. The Company issued 250,000 common shares at a price of \$0.14 per share to satisfy payment for \$35,000, due April 15, 2019.

On April 1, 2019, the Company made a share issuance to a corporation owned and controlled by Thrasher, pursuant to a consulting agreement. The Company issued 180,000 common shares at a price of \$0.14 for a total consideration of \$25,200, due April 15, 2019.

On May 22, 2019, the Company made a share issuance to a consultant pursuant to a consulting agreement for services. The Company issued 300,000 common shares at a price of \$0.14 per share for a total consideration of \$42,000.

Year ended November 30, 2018

In March 2018, the Company made a share issuance to Northeast Industrial Partners ("NEIP") pursuant to a consulting agreement. 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 March 2018, the Company made a share issuance to Jensen pursuant to his employment agreement. SDI issued 339,370 common shares at a price of \$0.1473 per share to satisfy the payment of \$50,000, due January 15, 2018.

In May 2018, the Company made a share issuance to Jensen pursuant to his employment agreement. SDI issued 334,154 common shares at a price of \$0.1496 per share to satisfy the payment of \$50,000, due April 15, 2018.

In July 2018, the Company made a share issuance to Jensen pursuant to his employment agreement. SDI issued 298,880 common shares at a price of \$0.1673 per share to satisfy the payment of \$50,000, due July 15, 2018.

In November 2018, the Company made a share issuance to Jensen pursuant to his employment agreement. SDI issued 136,146 common shares at a price of \$0.1469 per share to satisfy the payment of \$20,000, due October 15, 2018.

In November 2018, the Company made a share issuance to Ganz pursuant to a consulting agreement. SDI issued 500,000 common shares at a price of \$0.1451 per share for a total consideration of \$72,573 to satisfy the payment for services for the fiscal third quarter.

In November 2018, the Company made a share issuance to a corporation owned by Thrasher under the consulting agreement. SDI issued 180,000 common shares at a price of \$0.1533 per share for a total consideration of \$27,600 due September 15, 2018.

In November 2018, the Company made a share issuance of 6,666,666 common shares to FinTekk AP, LLC ("FinTekk") at a price of \$0.15 per share. The shares are issued pursuant to a debt settlement agreement, to retire certain debt owing by the Company to FinTekk, in connection with a sponsorship agreement (the "Sponsorship Agreement"). The Sponsorship Agreement details a marketing campaign for the launch of the Company's new Byrna<sup>TM</sup> HD product over the 2018 and 2019 fiscal years. The Company recognized \$750,000 as a prepaid expense as at November 30, 2018 (See note 13).

**SECURITY DEVICES INTERNATIONAL, INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the Period Ended May 31, 2019 and 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 CSE, 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.
- (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 CSE, this maximum will be 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 CSE, options will be non-assignable and non-transferable.
- (f) So long as the shares are listed on the CSE, 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.

**SECURITY DEVICES INTERNATIONAL, INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the Period Ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars)**  
**(Unaudited)**

5. STOCK BASED COMPENSATION AND WARRANTS-Cont'd

Year ended November 30, 2018

Warrants

On October 22, 2018, the Company entered into a securities purchase agreement with several accredited investors to sell \$1,275,000 of units at a price of \$1,000 per unit, consisting of (i) \$1,000 10% interest unsecured convertible promissory note, convertible into the Company's common stock at a conversion price of \$0.15 per share and (ii) four thousand warrants each exercisable for one share of common stock at an exercise price of \$0.25 per share on or before the five year anniversary of the issuance. The Company issued 5,100,000 warrants. The relative grant date fair value of these warrants was estimated at \$524,089 using the Binomial lattice option pricing model and reflected in additional paid-in capital, with the following assumptions:

Risk free rate	3.05%
Expected dividends	0%
Expected volatility	159%
Expected life	5 years
Market price of the Company's common stock on date of grant of warrants	\$ 0.14

Stock Options

On March 27, 2017, the board of directors granted options to Dean Thrasher 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 year ended November 30, 2018, leaving a balance of \$nil as unvested stock-based compensation expense.

On April 13, 2018, the board of directors granted 1,500,000 options for shares of the Company's common stock to the Chief Technology officer ("CTO"), Buys, with exercise price of \$0.16 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 Buys must remain employed by the Company for three years for the options to vest. The grant date fair value of the options used for the purpose of estimating the stock compensation is estimated using the Binomial Lattice option pricing model with the following assumptions:

Risk free rate	2.77%
Expected dividends	0%
Expected forfeiture rate	0%
Expected volatility	190%
Expected life	7 years
Market price of the Company's common stock on date of grant of options	\$ 0.15
Stock-based compensation cost expensed during the year	\$ 10,568
Unvested stock-based compensation expense	\$ 40,159

**SECURITY DEVICES INTERNATIONAL, INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the Period Ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars)**  
**(Unaudited)**

5. STOCK BASED COMPENSATION AND WARRANTS-Cont'd

On October 22, 2018, the board of directors granted 400,000 options to directors and 250,000 options to a consultant for a total of 650,000 options. These options were issued at an exercise price of CAD \$0.19 (\$0.14) 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		133%
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 during the year	\$	79,185
Unvested stock-based compensation expense	\$	Nil

As of November 30, 2018, there was \$40,159 of unrecognized expense related to non-vested stock-based compensation arrangements granted.

Six months ended May 31, 2019

Warrants

On December 3, 2018, the Company issued 750,000 warrants each to two consultants (the "incentive warrants") to purchase common shares of the Company at a strike price equal to the average trading price of the Company on the OTC QB during the 20 business days proceeding such approval. 50% of the incentive warrants vested upon issuance and the balance will vest on December 31, 2019. The incentive warrants shall have a three-year life. These warrants were issued pursuant to the contracts executed with these two consultants. The grant date fair value of each warrant 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		149%
Expected life		3 years
Market price of the Company's common stock on date of grant of warrants	\$	0.16
Stock-based compensation cost expensed	\$	141,835
Unvested stock-based compensation expense	\$	52,255

On April 22, 2019 and May 20, 2019, the Company entered into a securities purchase agreement with several accredited investors to sell a total of \$2,080,265 of units at a price of \$1,000 per unit, consisting of (i) \$1,000 10% interest unsecured convertible promissory note, convertible into the Company's common stock at a conversion price of \$0.15 per share and (ii) four thousand warrants each exercisable for one share of common stock at an exercise price of \$0.25 per share on or before the five year anniversary of the issuance. The Company issued 8,321,058 warrants. The relative grant date fair value of these warrants was estimated at \$888,444 using the Binomial lattice option pricing model and reflected in additional paid-in capital, with the following assumptions:

Risk free rate		2.21-2.39%
Expected forfeiture rate		0%
Expected dividends		0%
Expected volatility		155-156%
Expected life		5 years
Market price of the Company's common stock on date of grant of warrants	\$	0.15

Stock Options

On April 13, 2018, the board of directors granted 1,500,000 options for shares of the Company's common stock to Buys, with an exercise price of \$0.16 and a trigger price of \$0.30, \$0.50 and \$1.00 for each batch of 500,000 options, respectively. The Company expensed stock-based compensation of \$8,454 during the six-month period ended May 31, 2019.

On May 21, 2019, the Company granted 120,000 options to an employee. These options were issued at an exercise price of CAD \$0.19 (\$0.14) per share and vested immediately with an expiry term of five years. The grant date 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		133%
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	\$	14,621
Unvested stock-based compensation expense	\$	Nil

As of May 31, 2019, there was \$83,959 of unrecognized expense related to non-vested stock-based compensation arrangements granted.

**SECURITY DEVICES INTERNATIONAL, INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the Period Ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars)**  
**(Unaudited)**

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.

Six months ended May 31, 2019

As of May 31, 2019, there are no amounts receivable from related parties.

As of May 31, 2019, the Company had an amount payable of \$45,000 to related parties which is unsecured, non-interest bearing and due on demand. This payable is included in accounts payable and accrued liabilities.

Effective as of October 1, 2017, the Company entered into an employment agreement (the "Employment Agreement") with Jensen pursuant to which Jensen serves as President and Chief Operating Officer ("COO") and effective July 13, 2018 serves as Chief Executive Officer ("CEO") of the Company. Jensen resigned as CEO of the Company effective April 1, 2019. By the terms of the Employment Agreement, 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, 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 common 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. Jensen resigned effective April 1, 2019. The Company expensed \$66,667 for the services for the six months ended May 31, 2019 which includes an obligation of the Company to issue shares for \$20,000 (see notes 4 and 7).

The Company expensed \$30,000 for services provided by Rakesh Malhotra, Chief Financial Officer ("CFO") of the Company which was paid to a corporation in which the CFO has an ownership interest, pursuant to the consulting contract. (See note 7).

The Company expensed \$43,200, which includes \$25,200 for the issuance of 180,000 common shares for services, pursuant to a consulting contract, for services provided by Thrasher (see note 4).

On April 13, 2018, the Company employed Buys as the CTO with compensation of \$10,000 per month over a three-year period. The Company expensed \$60,000 during the six months ended May 31, 2019. On April 13, 2018, the Company granted options to Buys to acquire a total of 1,500,000 common shares. The Company expensed \$8,454 for the value of options which vested during this period (see notes 4, 5, and 7).

Effective June 1, 2018 the Company entered into a consulting agreement with Ganz pursuant to which Ganz serves as President of the Company. By the terms of the consulting agreement, Ganz will be paid annually \$200,000 in the Company's common shares for his services. The Company expensed \$76,374 which includes \$46,667 for issuance of 333,333 common shares and \$12,500 for issuance of convertible debentures (see note 4).

The Company expensed \$74,385 for services provided for Wager, which includes \$35,000 for issuance of 250,000 common shares and \$12,500 for issuance of convertible debentures (see note 4).

Effective December 1, 2017, the Company leased office premises at Wakefield, Massachusetts, USA for rent of \$700 plus services per month from a corporation owned and controlled by a director of the Company. The Company expensed \$8,665 as office rent plus services for the six months ended May 31, 2019. As of May 31, 2019, the Company has a payable for \$6,997 for the rent.

Current directors and officers of the Company participated in the April 22, 2019 and May 20, 2019 financing for 271 units for total proceeds of \$270,588, of which \$35,000 was issued for services rendered.

**SECURITY DEVICES INTERNATIONAL, INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the Period Ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars)**  
**(Unaudited)**

6. RELATED PARTY TRANSACTIONS-Cont'd

Six months ended May 31, 2018

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

As of May 31, 2018, the Company had a payable of \$33,333 to a related party to be settled by issuance of stock and \$18,241 payable to related parties to be paid by cash. The payable is unsecured, non-interest bearing and due on demand. This payable is included in accounts payable and accrued liabilities.

Effective as of October 1, 2017, the Company entered into an 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 calendar quarter (see note 7).

The Company expensed \$27,000 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 \$78,600 (CAD \$100,000) for services provided by the CEO of the Company and which was paid to a corporation in which the CEO has an ownership interest, in accordance with the consulting contract.

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 \$33,468 for fair value of options which vested during this period.

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 \$16,667 during the six-month period ended May 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 \$2,114 for fair value of options which vested during this period.

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 \$4,200 as office rent for the six-months ended May 31, 2018.

**SECURITY DEVICES INTERNATIONAL, INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the Period Ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars)**  
**(Unaudited)**

7. COMMITMENTS

a) Consulting agreements

On April 13, 2018, the Company entered into a Purchase and Sale Agreement (the "Agreement") with André Buys, ("Buys") a resident of South Africa, pursuant to which the Company purchased from Buys a portfolio of registered patent rights 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 Buys \$100,000, (ii) agreed to pay Buys either \$500,000 in cash or \$750,000 worth of Company stock within two years (the "Second Payment") at Buys' discretion and (iii) agreed to pay Buys certain royalty payments for sales of products by the Company using technology covered by the Portfolio. In addition, the Company employed Buys as the CTO and for services issued 1,500,000 options for shares of the Company's common stock to Buys with a strike price of \$0.16 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 Buys must remain employed by the Company for three years in order for the options to vest. 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 Buys relocation to Boston. In the event that the Company fails to make the Second Payment, the Portfolio would revert to 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. As the substance of the purchase and sale agreement has been determined to be an option agreement, the Company has not recorded any amount related to the Second Payment. The Company agrees that it will not terminate 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 November 1, 2018, the Company entered into consulting agreements (the "Consulting Agreements") with two consultants. The consultants will each be paid \$7,500 per month commencing November 1, 2018 and to be increased to \$10,000 per month subsequent to the month the Company begins shipping the Byrna HD product to customers. The term of the contracts with the consultants continue until December 31, 2019.

b) Lease commitments

1. The Company has commitments for leasing office premises in Wakefield, Massachusetts, USA to June 27, 2019, at a monthly rent of \$700 (see note 6).
2. The Company has commitments for leasing warehouse space in Fort Wayne, Indiana, USA to February 28, 2020, at a monthly rent of \$2,472.
3. The Company has commitments for leasing office premises in Pretoria East, South Africa to December 19, 2020, at a monthly rent of \$1,050 (Rand 14,750).



**SECURITY DEVICES INTERNATIONAL, INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the Period Ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars)**  
**(Unaudited)**

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 has given written notice of termination at least ninety (90) days prior to the end of the then-current term.

9. CONVERTIBLE DEBENTURES AND DEFERRED FINANCING COSTS

*a) Secured Convertible Debentures \$Nil (November 30, 2018: \$978,361)*

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 (\$26,640) 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 \$0.135 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. The embedded conversion option is subject to classification in the financial statements in liabilities at fair value both at inception and subsequently.

The Company has evaluated the terms and conditions of the debentures under the guidance of ASC 815. All three criteria under ASC 815-15-25-1 are met, therefore, the conversion feature requires classification and measurement as derivative financial instruments. Accordingly, the evaluation resulted in the conclusion that this derivative financial instrument requires bifurcation and liability classification, at fair value. 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:

Secured convertible notes (CAD \$1,399,000)	Face Value \$ 1,041,835
Proceeds	1,041,835
Embedded derivative	(285,612)
Carrying value	\$ 756,223

The carrying value of these debentures at November 30, 2018 was CAD \$1,301,359 (\$978,361). Effective May 31, 2019, the Company repaid these debentures for CAD \$1,399,000 (\$1,035,930) plus accrued interest.

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 \$98,924 (\$73,201) during the six months ended May 31, 2019 and CAD\$73,545 (\$58,111) during the prior six months ended May 31, 2018. During the six months ended May 31, 2019, the Company recorded interest expense for \$67,007 (May 31, 2018: \$66,179).

**SECURITY DEVICES INTERNATIONAL, INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the Period Ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars)**  
**(Unaudited)**

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

*b) Convertible Notes \$1,590,757 (November 30, 2018: \$167,077)*

1. On October 22, 2018, the Company entered into a Securities Purchase Agreement with several accredited investors to sell \$1,275,000 of units, with each \$1,000 of unit consisting of (i) a \$1,000 10% interest unsecured convertible promissory note (collectively the "Notes") due April 15, 2020, convertible into the Company's common stock at a conversion price of \$0.15 per share, and (ii) four thousand (4,000) warrants each exercisable for one share of common stock at an exercise price of \$0.25 per share on or before the five year anniversary of the issuance. The notes are secured secondary by all of the Company assets and accrue interest at 10% per annum, payable in cash at maturity. However, 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 common stock at a conversion price of \$0.15 per share subject to anti-dilution protection. The note embodies certain traditional default provisions that are linked to credit or interest risks, such as bankruptcy proceedings, liquidation events and corporate existence. The Company concluded that the embedded conversion option is not indexed to the Company's 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.

The Company evaluated the terms and conditions of the Notes under the guidance of ASC 815. All three criteria under ASC 815-15-25-1 are met, therefore, the conversion feature requires classification and measurement as derivative financial instruments. Accordingly, the evaluation resulted in the conclusion that this derivative financial instrument requires bifurcation and liability classification, at fair value. 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 October 22, 2018:

Proceeds	\$	1,275,000
Convertible notes	\$	(131,547)
Derivative liability-convertible promissory notes	\$	(619,364)
Additional paid in capital (equity warrants)	\$	(524,089)

The Company issued 5,100,000 warrants. The relative fair value of these warrants was estimated at \$524,089 using the Binomial Lattice option pricing model and reflected in additional paid-in capital. 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 \$175,234 during the six months ended May 31, 2019 (May 31, 2018: \$Nil) resulting in the carrying value of convertible notes at \$342,311 as at May 31, 2019 (November 30, 2018: \$167,077). During the six months ended May 31, 2019, the Company recorded interest expense for \$60,992 (May 31, 2018: \$Nil).

2. On April 22, 2019 and May 20, 2019, the Company entered into a securities purchase agreement with several accredited investors to sell a total of \$2,080,265 of units, with each \$1,000 of unit consisting of (i) a \$1,000 10% interest unsecured convertible promissory note (collectively the "Notes") due April 15, 2020, convertible into the Company's common stock at a conversion price of \$0.15 per share, and (ii) four thousand (4,000) warrants each exercisable for one share of common stock at an exercise price of \$0.25 per share on or before the five year anniversary of the issuance. The notes are secured secondary by all of the Company assets and accrue interest at 10% per annum, payable in cash at maturity. However, 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 common stock at a conversion price of \$0.15 per share. The note embodies certain traditional default provisions that are linked to credit or interest risks, such as bankruptcy proceedings, liquidation events and corporate existence. The Company concluded that the Notes meet the definition of conventional convertible debt provided in ASC 815 and the embedded conversion option is not subject to bifurcation and classification in the financial statements in liabilities at fair value. In connection with the issuance of the Notes, the Company issued the holders warrants to purchase the common stock. The warrant is exercisable until October 23, 2023 for 8,321,058 of shares at a purchase price of \$0.25 per share. The Company concluded that the warrants are indexed to the stock and, accordingly, the analysis resulted in the conclusion that these warrants achieved equity classification in the financial statements. See note 6.

The Company accounted for this transaction as a financing transaction, wherein the net proceeds received were allocated to the financial instruments issued which resulted in a discount. The warrants were valued at \$888,444 and the balance of the convertible debt for \$1,191,821. The discount is being charged to interest and is being accreted over the term of the note using the effective interest method. During the period ended May 31, 2019 (May 31, 2018: \$Nil) the Company recorded \$56,625 in interest from the accretion of the discount. In addition, the Company recorded interest expense for \$19,427 for the period ended May 31, 2019 (May 31, 2018: \$Nil). Prior to making the accounting allocation, the Company evaluated for proper classification under ASC 480 *Distinguishing Liabilities from Equity* ("ASC 480") and ASC 815 *Derivatives and Hedging* ("ASC 815"). This debt agreement did not contain any embedded terms or features that require classification as derivatives. The Company was required to consider whether the hybrid contract embodied a beneficial conversion feature ("BCF"). The calculation of the effective conversion amount did not result in a BCF because the effective conversion price was equal to the Company's stock price on the date of issuance.

**SECURITY DEVICES INTERNATIONAL, INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the Period Ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars)**  
**(Unaudited)**

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

**Derivative Liabilities**

The carrying values of the embedded derivative liabilities is reflected on the balance sheet, with changes in the carrying value being recorded as a change in fair value of derivative liabilities on the statement of operations.

The components of the embedded derivative as of May 31, 2019 are:

Financings giving rise to derivative financial instruments	Indexed Shares	Fair Value
Convertible Notes October 22, 2018	8,500,000	\$ 310,539
	8,500,000	\$ 310,539

The components of the embedded derivative as of November 30, 2018 are:

Financings giving rise to derivative financial instruments	Indexed Shares	Fair Value
Convertible Secured Debentures December 7, 2016	8,044,853	\$ 426,016
Convertible Notes October 22, 2018	8,500,000	531,285
	16,544,853	\$ 957,301

The following table summarizes the effects on gain (loss) associated with changes in the fair values of derivative financial instruments by type of financing for the six months ended May 31, 2019 and 2018:

Financings giving rise to derivative financial instruments and the income effects:	Six Months Ended May 31, 2019	Six Months Ended May 31, 2018
Convertible Secured Debentures December 7, 2016	\$ 425,020	\$ 61,349
Convertible Notes October 22, 2018	\$ 220,747	-
	\$ 645,767	\$ 61,349

**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. The derivative financial instruments which are required to be measured at fair value on a recurring basis under of ASC 815 as of May 31, 2019 and November 30, 2018 are all measured at estimated fair value using Level 2 and 3 inputs.

SECURITY DEVICES INTERNATIONAL, INC.  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the Period Ended May 31, 2019 and 2018**  
(Amounts expressed in US Dollars)  
(Unaudited)

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

The embedded derivative was fair valued using the income valuation technique using the Lattice valuation model. The following table sets forth the inputs for each significant assumption:

Convertible secured debentures, December 7, 2016	May 31, 2019	November 30, 2018
Derivative financial instruments	\$ -	\$ 426,016
Conversion price	\$ -	\$ 0.135
Volatility	-	91%
Remaining term (years)	-	0.52
Risk free rate	-	2.52%
Convertible notes, October 22, 2018	May 31, 2019	November 30, 2018
Derivative financial instruments	\$ 310,539	\$ 531,285
Conversion price	\$ 0.15	\$ 0.15
Volatility	76%	79%
Remaining term (years)	0.88	1.38
Risk free rate	2.21%	2.70%

**SECURITY DEVICES INTERNATIONAL, INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the Period Ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars)**  
**(Unaudited)**

10. INVENTORY

Inventory as of May 31, 2019 consists of raw materials for Byrna for \$464,089 (November 30, 2018: \$Nil) finished goods of Byrna for \$14,197 (November 30, 2018: \$Nil), finished goods of Blunt Impact Projectiles 40mm for \$71,974 (November 30, 2018: \$90,329) and inventory procured from other suppliers for \$37,216 (November 30, 2018: \$38,792). 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 three geographic areas in U.S.A., South Africa (“SA”) and Canada respectively. The U.S.A., South Africa 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 six months ended May 31, 2019 and May 31, 2018:

Six months ended May 31, 2019

	SDI USA	SDI SA	SDI Canada	Total
Sales	\$ 74,570	56,695	\$ 36,084	\$ 167,349

Six months ended May 31, 2018

	SDI USA	SDI SA	SDI Canada	Total
Sales	\$ 139,705	-	\$ 99,769	\$ 239,474

	2019	2018
Sales	\$ 167,349	\$ 239,474
Elimination of intersegment revenue	(50,473)	(72,616)
Consolidated sales	\$ 116,876	166,858

As at May 31, 2019

	SDI USA	SDI SA	SDI Canada	Total
Assets	\$ 2,155,355	570,643	\$ 56,285	\$ 2,782,283

As at November 30, 2018

	SDI USA	SDI SA	SDI Canada	Total
Assets	\$ 2,629,315	-	\$ 27,770	\$ 2,657,085

**SECURITY DEVICES INTERNATIONAL, INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the Period Ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars)**  
**(Unaudited)**

12. PATENT RIGHTS

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 'BIP'.

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 Wireless Electric Projectile ("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 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.

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 patent rights, provisional patent rights, 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 paid Buys \$100,000, and incurred \$10,000 in legal costs to transfer these patent rights. This consideration of \$110,000 has been capitalized. The Company also agreed to pay Buys either \$500,000 in cash or \$750,000 worth of Company stock within two years (the "Second Payment") at Buys' discretion. In the event that the Company fails to make the Second Payment, the Portfolio would revert to 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. As the substance of the purchase and sale agreement has been determined to be an option agreement, the Company has not recorded any amount related to the Second Payment. These patent rights 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 being the estimated useful life, as determined by management. The Company amortized \$3,666 during the six months ended May 31, 2019 (May 31, 2018: \$nil). 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 patent rights. As at May 31, 2019, the amount recorded as Patent rights refer to the perpetual, irrevocable, exclusive and non-exclusive license to use technology with respect to the portfolio.

**SECURITY DEVICES INTERNATIONAL, INC.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the Period Ended May 31, 2019 and 2018**  
**(Amounts expressed in US Dollars)**  
**(Unaudited)**

13. PREPAID EXPENSES AND OTHER RECEIVABLES

Prepaid expenses and other receivables as of May 31, 2019, include the prepayment of \$583,333 (November 30, 2018: \$750,000) by the issuance of common shares to FinTekk AP LLC, being the issuance relating to the marketing campaign for the launch of the Company's new Byrna<sup>TM</sup> HD product to occur in the last half of fiscal 2019.

14. SUBSEQUENT EVENTS

- a) Effective July 9, 2019, the Company appointed William B. Richards, Beatrice Mitchell and Herbert Hughes as directors of the Company. Effective July 9, 2019, Thrasher resigned from the board of directors.
- b) On July 22, 2019, the Company entered into a Securities Purchase Agreement (the "Agreement") with several investors (the "Purchasers") and Northeast Industrial Partners, LLC as collateral agent for the Purchasers (the "Collateral Agent") to sell a total of \$2,282,500 units, with each \$1,000 of units consisting of (i) a \$1,000 unsecured convertible promissory note (collectively the "Notes"), convertible into the Company's common stock at a conversion price of \$0.15 per share, and (ii) four thousand (4,000) warrants each exercisable for one share of common stock at an exercise price of \$0.25 per share, on or before January 22, 2024.

The outstanding principal amount of the Notes accrues interest at a rate of 10% per annum, provided that, in the event of default on the Notes, the interest rate will be 15% during the period of default. The maturity date of the Notes is June 30, 2021, which date is subject to optional extension by each Purchaser if a change of control of the Company is announced prior to such date. Interest on the Notes is payable in arrears on the last day of each January and July while the Notes are outstanding. The Company has the option to redeem the Notes by paying the Purchasers the optional redemption price as described in the Notes. Each Note is convertible into common stock, at the option of the Purchaser. Upon such optional conversion, the outstanding principal amount of the Note converts into shares of common stock at a conversion price of \$0.15 per share, subject to adjustment upon issuance of other securities as set forth in the Notes. The Notes contain restrictive covenants which, among other things, restrict the Company's ability to incur additional indebtedness, grant security interests on its assets, or make distributions on or repurchase its common stock. The Notes are secured, pursuant to the Agreement, with a security interest in substantially all of the Company's assets.

## **Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This section and other parts of this Quarterly Report on Form 10-Q ("Form 10-Q") contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by such words as "future," "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "will," "would," "could," "can," "may," and similar terms. Forward-looking statements do not guarantee future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part II, Item 1A of this Form 10-Q under the heading "Risk Factors," which are incorporated herein by reference. The following discussion should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended November 30, 2018 (the "2018 Form 10-K") filed with the U.S. Securities and Exchange Commission (the "SEC") and the condensed consolidated financial statements and notes thereto included in Part I, Item 1 of this Form 10-Q. All information presented herein is based on the Company's fiscal calendar. Unless otherwise stated, references to particular years, quarters, months or periods refer to the Company's fiscal years ended in November and the associated quarters, months and periods of those fiscal years. Each of the terms the "Company" and "SDI" as used herein refers collectively to Security Devices International Inc. and its wholly-owned subsidiaries, unless otherwise stated. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.*

### **Available Information**

Information on the Company is available free of charge on the Company's websites at [ir.securitydii.com](http://ir.securitydii.com) and by clicking "Investors" at [www.byrna.com](http://www.byrna.com). The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov). The Company periodically provides other information for investors at [ir.securitydii.com](http://ir.securitydii.com) and through the Investors link at [www.byrna.com](http://www.byrna.com). This includes press releases and other information about financial performance, information on corporate governance, and details related to the Company's annual meeting of shareholders. The information contained on the websites referenced in this Form 10-Q is not incorporated by reference into this filing. Further, the Company's references to website URLs are intended to be inactive textual references only.

### **Overview and Highlights**

The Company is a defense technology firm specializing in the development, production, procurement and sale of innovative non-lethal technologies and products to the consumer, military, law enforcement and private security end markets. The Company's main product lines are its 40MM less-lethal projectiles and the Byrna™ line of personal security devices, the Company's first products designed to be used by civilians as well as private security professionals. The Company also sells accessories and third-party products compatible with its Byrna line of personal security devices, and projectiles to be used with the launchers. The Company primarily sells its products in the United States and Canada, and recently has begun offering its products for sale in South Africa. In the United States and in Canada, the Company sells products through its online stores and through historic dealer relationships. In South Africa, the Company sells the Byrna™ HD and related products through Dave Sheer Guns, the leading distributor of firearms and accessories in South Africa. Dave Sheer Guns markets the Byrna™ products to private security companies, gun stores and consumers.

#### *Business Strategy*

Less-lethal weapons include a wide variety of products designed to disorient, disarm, disable and deter would-be assailants, rioters, and other malfeasants. It is the Company's belief that the United States, along with many other parts of the world is experiencing a significant spike in the demand for less-lethal products and that the less-lethal market will be one of the faster growing market segments over the next decade. The less lethal market has been projected to approach 12 billion dollars per year by 2023 (Statistics MRC. Non-Lethal Weapons – Global Market Outlook (2017-2023)).



The Company's business strategy is twofold: (1) to fulfill the growing demand for less-lethal products in the law enforcement, correctional services, military and security services markets, and (2) to provide civilians – including homeowners, campers, boaters, retirees, and others whose work or daily activities may put them at risk of being a victim – with easy access to an effective, non-lethal way to protect themselves and their loved ones from threats to their person or property.

#### *Less-lethal Munitions*

In the law enforcement, correctional services, and private security markets, the Company sells less-lethal munitions designed for 40mm rifled launchers. These less-lethal munitions include impact rounds designed to stop an individual without causing permanent injury or death and "payload" rounds carrying a variety of payload packages such as tear gas, pepper spray, DNA marking liquids, mal-odorants and other marking products designed to identify instigators in riot situations. The Company's flagship product in this market is its 40mm blunt impact projectile ("BIP"), which uses patented collapsible gel head technology. The Company believes its product is by far the best 40mm kinetic energy impact round currently on the market. The Company sells its 40mm munitions through distributors in the US and Canada and maintains an online store for sales to government agencies. The Company also has entered into a licensing agreement with Safariland to market the SDI patented 40mm piston driven collapsible head projectile mated to a Safariland aluminum casing. The parties are still in the testing phase for the resulting product. If the SDI patented 40mm piston driven collapsible head projectile mated to a Safariland casing passes the testing regime, the Company expects Safariland to market this product under the Def-Tec brand. The Company has also entered into an Agreement with Airtronics to supply the BIP as the standard round to be sold with Airtronics' "Sonis" brand less lethal launcher. Airtronics focuses on military sales around the world. The Company is working on the development of new munitions for the law enforcement market.

#### *The Byrna™ HD*

The Company recently launched the Byrna HD, the first product in its highly anticipated Byrna line of handheld personal security devices intended to fill a perceived need in both the civilian and professional markets. The Byrna HD, which utilizes several of the Company's proprietary patents and has over 60 custom designed parts, is designed specifically for the consumer (home defense) and private security markets. The Byrna HD is compact, ergonomic, attractive, and easy to use. It uses proprietary CO2 cartridges to accurately fire .68 caliber impact and chemical irritant projectiles. The Byrna HD is extremely effective at deterring, disabling, and temporarily incapacitating an intruder or would be assailant at safe stand-off distances up to 60 feet.

In February of 2019, the Company launched its online store for the Byrna HD and held its official product launch, in conjunction with Daytona Speedweek, where the Company was an Associate Sponsor of a race car driven by Cody Ware. Visitors to our display booth had the opportunity to see and hold Byrna prototypes, take pictures with the Byrna Ford, meet Cody Ware, win Byrna logo apparel, and place pre-orders. Management was very encouraged by the conversion rate at Daytona Speedweek, selling the Byrna HD or a product bundle to approximately one out of every six people that visited the Company's booth.

The Company's primary focus this quarter has been to get the Byrna HD into serial production, fulfill backorders, and build its inventory of Byrnas available for immediate delivery. In late March the Company began shipping limited quantities of the Byrna HD to Dave Sheer Guns in South Africa, which is marketing the launchers to both private security companies and the general public. At the very end of May the Company began shipments to customers in the U.S. The initial feedback from customers who received their launchers was overwhelmingly positive. As soon as its first U.S. deliveries began, the Company began receiving re-orders of its practice rounds and CO2 cartridges.

#### *Q2 Capital Raise*

The Company raised USD \$2,080,000 during the quarter in a private placement of convertible notes and warrants in a non-brokered private placement pursuant to Regulation D under the U.S. Securities Act of 1933 (the "Securities Act"). No sales commission or placement fees were paid in connection with the offering. The sale of the Units was closed in two tranches, with the first tranche closing on April 22, 2019 with the issuance of USD \$1,715,265.71 in Units and the second tranche, with the issuance of USD \$364,734.29 in Units closing on May 20, 2019. The net proceeds from the sale of the Units were used to repay at maturity US\$1,035,260 (CAD \$1,399,000) plus accrued interest of the Company's Series B Convertible Secured Debentures, repaid on May 31, 2019, and for general corporate purposes and working capital.

### *Subsequent Events*

On June 18<sup>th</sup> the Company hit a production milestone of 1,000 units and shipped its 500<sup>th</sup> launcher to the United States. Production in South Africa has been moved to a new facility, Roboro Industries (PTY) LTD, and 700 launchers were produced in June. The Company expects to produce at least 2000 additional launchers by the end of the quarter. This should allow the Company to work through its back orders and focus on new business development.

The first reviews of the Byrna HD by customers who posted on our website have been extremely positive. On July 16th, Don Porter (aka Sootch00) released a 17 minute review of the Byrna HD which included impressive live fire demonstrations illustrating the effect of the Company's chemical irritant rounds. Since the airing of that review on YouTube it has had over 100,000 views, and the Company has seen a notable increase in visits to the Byrna website and a significant uptick in orders. Management is encouraged by consumer response to the product and is in the process of planning and beginning a nation-wide marketing campaign. The Company expects to introduce additional products in the Byrna family, including a law enforcement version and a professional edition with a longer range of accuracy using its patented fin-tail projectiles, as well as various accessories and companion products.

Another capital raise similar to the private placement that closed in April and May is under way, with a first tranche of \$2,282,500.00 of Units closed on July 22, 2019. The Company has received expressions of interest to purchase up to USD \$717,500 of additional Units and expects to close on the sale of any such additional Units on or about August 31, 2019. The net proceeds from the sale of the Units will be used for general corporate purposes and working capital. The Company believes the cash raised during and subsequent to the quarter (including that anticipated to be raised by August 31) will be sufficient for working capital needs for the upcoming twelve (12) months as the company builds sales and brand awareness.

### *Quarter Highlights*

The Company's operating expenses increased to \$709,315 for the three month period ended May 31, 2019 due primarily to the costs associated with preparing to go into serial production on the Byrna HD. This included the costs of setting up the assembly line in South Africa and the distribution center in Fort Wayne, IN, research, development and testing costs, improvements to the Byrna design and performance, preparation and printing of packaging materials and enclosures, and marketing costs, including continuing to build out the Company's e-commerce capabilities. The Company also continued to implement a new ERP systems in the U.S., implemented new accounting software in South Africa, and hired additional accounting and administrative support necessary to facilitate use of the new systems.

During this period inventory rose to \$587,476 and accounts payable and accrued liabilities rose to \$928,103. These increases were due largely to the Company's preparation for serial production and shipping of the Byrna HD launcher that began at the end of the quarter. In addition, the Company invested \$151,066 during the six months ending May 31, 2019 in equipment for use in the manufacture of the Byrna HD. The Company's capital raise during the quarter offset a portion of these expenses and brought the cash balance to \$738,714.

There were limited sales of the Byrna HD during Q2 to offset the costs associated with bringing the product to market. The company began shipping against back orders in April 2019 and now anticipates fulfilling all current backorders by the end of August 2019.

### *Going Concern*

The Company has incurred a cumulative loss of \$ 34,854,841 from its inception in 2005 to May 31, 2019. The Company has funded operations through the issuance of capital stock, warrants and convertible debentures. The Company has started to generate revenue from the sale of the Byrna HD and associated products. 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 May 31, 2019.

	Three-month period May 31, 2019 (unaudited)	Three-month period May 31, 2018 (unaudited)
	\$	\$
Net loss for the three- month period	(718,731)	(484,309)
Basic and diluted loss per share	(0.007)	(0.005)
Total assets	2,782,283	1,508,194
Total liabilities	2,868,175	1,825,763
Cash dividends per share	-	-

Results of Operations

Financial highlights (unaudited) for the period ending May 31, 2019 with comparatives are as follows:

Operating Results	For the three months ended May 31, 2019	For the three months ended May 31, 2018
Sales	\$ 105,769	\$ 138,742
Cost of sales	\$ (75,284)	\$ (98,472)
Gross profit	\$ 30,485	\$ 40,270
Operating expenses	\$ (709,315)	\$ (399,204)
Other expenses -interest	\$ (88,036)	\$ (33,272)
Accretion	\$ (202,202)	\$ (29,363)
Change in fair value of derivative liabilities	\$ 250,337	\$ (62,740)
Net loss for period	\$ (718,731)	\$ (484,309)
Loss per share	(\$0.007)	(\$0.005)

Operating Results	For the six months ended May 31, 2019	For the six months ended May 31, 2018
Sales	\$ 116,876	\$ 166,858
Cost of sales	\$ (80,833)	\$ (119,213)
Gross profit	\$ 36,043	\$ 47,645
Operating expenses	\$ (1,831,827)	\$ (701,027)
Other expenses -interest	\$ (147,426)	\$ (67,179)
Accretion	\$ (305,060)	\$ (58,111)
Change in fair value of derivative liabilities	\$ 645,767	\$ (61,349)
Net Loss for Period	\$ (1,602,503)	\$ (840,021)
Loss per Share	(\$0.016)	(\$0.009)

The Company's selected information for the quarter ended May 31, 2019 (unaudited) and November 30, 2018 (audited) are as follows:

	May 31, 2018	November 30, 2018
Total current assets	2,204,430	2,231,669
Total assets	2,782,283	2,657,085
Total current liabilities	2,868,175	2,332,971
Total liabilities	2,868,175	2,500,048
Stockholders' (deficiency) equity	(85,892)	157,037

Net loss for the three months ended May 31, 2019 was \$718,731 (\$0.007 per share) as compared to net loss of \$484,309 (\$0.005 per share) for the three-month period ended May 31, 2018.

During the quarter ended May 31, 2019, the Company expensed selling, general and administration expenses for \$728,893 as compared to \$415,425 for the three-month period ended May 31, 2018, thereby reflecting increase in costs primarily in research and development, payroll and consulting. Also refer to *Quarter Highlights* as detailed above.

#### *Cash Flows*

Net cash used in operations for the six months ended May 31, 2019, was \$(1,251,445) as compared to \$(884,132) used for the six months ended May 31, 2018. The major components of change relate to:

The Company incurred a net loss of \$1,602,503 for the six months ended May 31, 2019, as compared to a net loss of \$840,021 for the prior period ended May 31, 2018. For major components of this change, refer to *Quarter Highlights* as detailed above.

In addition, the Company's closing inventory increased by \$460,053 for the six months ended May 31, 2019 as compared to an increase of \$21,848 in 2018. This increase in inventory represents the investment in inventory required for production of Byrna HD devices in the subsequent period.

Net cash flow from investing activities was \$(173,183) during the six-month period ended May 31, 2019 as compared to \$(121,114) for the six-month period ended May 31, 2018. The Company acquired property and equipment for \$151,066 and deposited \$22,117 for equipment during the six-month period ended May 31, 2019. The Company acquired patents for \$110,000 and property and equipment for \$11,114 during the six-month comparative period ended May 31, 2018.

Net Cash flow from financing activities was net inflow of \$1,009,335 during the six-month period ended May 31, 2019 as compared to net outflow of \$(40,357) for the six-month period ended May 31, 2018. The increase in financing activities in 2019 was the result of cash raised from issuance of convertible debentures for \$2,045,265 and repayment of \$(1,035,930) of secured convertible debentures due for repayment during the period.

There was an overall decrease in cash of \$(443,673) during the six-month period ended May 31, 2019 as compared to a decrease in cash of \$(1,046,242) during the six-month period ended May 31, 2018.

#### *Liquidity and Capital Resources*

As at May 31, 2019, cash and cash equivalent was \$738,714, as compared to \$1,182,387 at November 30, 2018. This decrease is mainly attributable to the combination of factors mentioned above under heading *Quarter Highlights*.

At May 31, 2019, the Company had a working capital deficit of \$(663,745). The major components are: cash and cash equivalent \$738,714; prepaid expenses and other receivables \$807,232; inventory for \$587,476; accounts receivable for \$71,008; derivative liabilities for \$310,539; convertible debentures for \$1,590,757; deferred revenue for \$38,776 and accounts payable and accrued liabilities of \$928,103.

At November 30, 2018, the Company had a working capital deficit of \$(101,302). The major components are: cash and cash equivalent \$1,182,387; prepaid expenses and other receivables \$901,247; accounts receivable for \$18,914; inventory for \$129,121; derivative liabilities for \$957,301, secured convertible debentures for \$978,361 and accounts payable and accrued liabilities of \$397,309.

Management is currently exploring capital resources to satisfy future debt obligations. Without additional capital SDI will not be able to fund its anticipated capital requirements outlined above.

### *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.

#### Six months ended May 31, 2019

As of May 31, 2019, there are no amounts receivable from related parties.

As of May 31, 2019, the Company had an amount payable of \$45,000 to related parties which is unsecured, non-interest bearing and due on demand. This payable is included in accounts payable and accrued liabilities.

Effective as of October 1, 2017, the Company entered into an employment agreement (the "Employment Agreement") with Jensen pursuant to which Jensen serves as President and Chief Operating Officer ("COO") and effective July 13, 2018 serves as Chief Executive Officer ("CEO") of the Company. Jensen resigned as CEO of the Company effective April 1, 2019. By the terms of the Employment Agreement, 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, 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 common 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. Jensen resigned effective April 1, 2019. The Company expensed \$66,667 for the services for the six months ended May 31, 2019 which includes an obligation of the Company to issue shares for \$20,000 (see notes 4 and 7).

The Company expensed \$30,000 for services provided by Rakesh Malhotra, Chief Financial Officer ("CFO") of the Company which was paid to a corporation in which the CFO has an ownership interest, pursuant to the consulting contract. (See note 7).

The Company expensed \$43,200, which includes \$25,200 for the issuance of 180,000 common shares for services, pursuant to a consulting contract, for services provided by Thrasher (see note 4).

On April 13, 2018, the Company employed Buys as the CTO with compensation of \$10,000 per month over a three-year period. The Company expensed \$60,000 during the six months ended May 31, 2019. On April 13, 2018, the Company granted options to Buys to acquire a total of 1,500,000 common shares. The Company expensed \$8,454 for the value of options which vested during this period (see notes 4,5 and 7).

Effective June 1, 2018 the Company entered into a consulting agreement with Ganz pursuant to which Ganz serves as President of the Company. By the terms of the consulting agreement, Ganz will be paid annually \$200,000 in the Company's common shares for his services. The Company expensed \$76,374 which includes \$46,667 for issuance of 333,333 common shares and \$12,500 for issuance of convertible debentures (see note 4).

The Company expensed \$74,385 for services provided for Wager, which includes \$35,000 for issuance of 250,000 common shares and \$12,500 for issuance of convertible debentures (see note 4).

Effective December 1, 2017, the Company leased office premises at Wakefield, Massachusetts, USA for rent of \$700 plus services per month from a corporation owned and controlled by a director of the Company. The Company expensed \$8,665 as office rent plus services for the six months ended May 31, 2019. As of May 31, 2019, the Company has a payable for \$6,997 for the rent.

Current directors and officers of the Company participated in the April 22, 2019 and May 20, 2019 financing for 271 units for total proceeds of \$270,588, of which \$35,000 was issued for services rendered.

#### Six months ended May 31, 2018

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

As of May 31, 2018, the Company had a payable of \$33,333 to a related party to be settled by issuance of stock and \$18,241 payable to related parties to be paid by cash.

Effective as of October 1, 2017, the Company entered into an 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 calendar quarter.

The Company expensed \$27,000 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 \$78,600 (CAD \$100,000) for services provided by the CEO of the Company and which was paid to a corporation in which the CEO has an ownership interest, in accordance with the consulting contract.

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 \$33,468 for fair value of options which vested during this period.

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 \$16,667 during the six-month period ended May 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 \$2,114 for fair value of options which vested during this period.

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 \$4,200 as office rent for the six-months ended May 31, 2018.

#### *Off-balance sheet arrangements*

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

#### *Subsequent events*

Effective July 9, 2019, the Company appointed William B. Richards, Beatrice Mitchell and Herbert Hughes as directors of the Company. Effective July 9, 2019, Thrasher resigned from the board of directors.

On July 22, 2019, the Company entered into a Securities Purchase Agreement (the "Agreement") with several investors (the "Purchasers") and Northeast Industrial Partners, LLC as collateral agent for the Purchasers (the "Collateral Agent") to sell a total of \$2,282,500 units, with each \$1,000 of units consisting of (i) a \$1,000 unsecured convertible promissory note (collectively the "Notes"), convertible into the Company's common stock at a conversion price of \$0.15 per share, and (ii) four thousand (4,000) warrants each exercisable for one share of common stock at an exercise price of \$0.25 per share, on or before January 22, 2024.

The outstanding principal amount of the Notes accrues interest at a rate of 10% per annum, provided that, in the event of default on the Notes, the interest rate will be 15% during the period of default. The maturity date of the Notes is June 30, 2021, which date is subject to optional extension by each Purchaser if a change of control of the Company is announced prior to such date. Interest on the Notes is payable in arrears on the last day of each January and July while the Notes are outstanding. The Company has the option to redeem the Notes by paying the Purchasers the optional redemption price as described in the Notes. Each Note is convertible into common stock, at the option of the Purchaser. Upon such optional conversion, the outstanding principal amount of the Note converts into shares of common stock at a conversion price of \$0.15 per share, subject to adjustment upon issuance of other securities as set forth in the Notes. The Notes contain restrictive covenants which, among other things, restrict the Company's ability to incur additional indebtedness, grant security interests on its assets, or make distributions on or repurchase its common stock. The Notes are secured, pursuant to the Agreement, with a security interest in substantially all of the Company's assets.

#### *Outstanding share data*

As of August 2, 2019, the Company had 104,156,775 issued and outstanding shares of common stock.

#### *Dividends*

The Company has not, since the date of its inception, 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.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable

**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 May 31, 2019, 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 significant deficiency:

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 significant deficiency, 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. Transactions that are complex are being referred to an outside consultant.

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 May 31, 2019 that materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

**Part 11. Other Information****Item 1. Legal Proceedings**

None

## **Item 1A. Risk Factors**

### *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 certain of its products, the Company must either acquire or develop a sales and distribution infrastructure. In order to maximize sales of other products, the Company may determine that it needs to 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 certain 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. Accounting for the Company's wholly owned subsidiary, Byrna South Africa Pty Ltd, is handled by a firm whose principal is related to the Company's CTO.

*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.

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.

*Risks related to the Launch of the Byrna HD and related marketing, publicity and sales*

The Byrna HD is a brand-new product. Management's statements about the anticipated production, delivery, effectiveness, legality, performance, sales, and marketing of the Byrna™ HD, and the anticipated market response are all forward-looking. These statements involve risks and uncertainties, and actual results may differ from current expectations. Risks and uncertainties bearing on expectations for the Byrna HD and related NASCAR sponsorship, partnership with Rick Ware Racing, and sales to Dave Sheer Guns include without limitation: design flaws uncovered during testing; production problems that may cause manufacturing or shipping delays, quality problems, or cost overruns; the Company's dependence in part or in whole on the performance of third parties including those located outside the United States in connection with sourcing of components, distribution and resale, and logistic and assembly services; the dependency of the Company on proprietary and other intellectual property, which may not be available to the Company on commercially reasonable terms or at all; the impact of unfavorable legal proceedings, including intellectual property disputes; the impact of state and local laws and regulation or changes to laws and regulations including licensing, registration, and certification laws related to sale, possession or use of Byrna products or pepper-based defense products; the ability of the Company to manage risks associated with its activities at a manageable cost, including complying with applicable laws and regulations, and renewing and maintaining adequate insurance; and competition from less expensive or superior products that may be developed.

Except as required by law, SDI disclaims any intention and assumes no obligation to update or revise any forward-looking statements to reflect actual results, whether as a result of new information, future events, changes in assumptions, changes in factors affecting such forward-looking statements or otherwise.

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

In January 2019, the Company made a share issuance to Jensen pursuant to his employment agreement. The Company issued 134,938 common shares at a price of \$0.1482 per share to satisfy the payment of \$20,000, due January 15, 2019.

In January 2019, the Company made a share issuance to Ganz pursuant to a consulting agreement. The Company issued 500,000 common shares at a price of \$0.1482 for a total consideration of \$74,100, due December 15, 2018.

In January 2019, the Company made a share issuance to a corporation owned and controlled by Thrasher, executive chairman of the Company, pursuant to a consulting agreement. The Company issued 180,000 common shares at a price of \$0.1482 for consideration of \$26,676 due January 15, 2018.

In January 2019, the Company made a share issuance to the Chief Legal Officer ("CLO") pursuant to a consulting agreement. The Company issued 166,666 common shares at a price of \$0.1482 for a total consideration of \$24,700, due January 15, 2019.

In January 2019, the Company made a share issuance to a consultant pursuant to a consulting agreement. The Company issued 134,938 common shares at a price of \$0.1482 per share to satisfy the payment of \$19,998 due January 15, 2019.

On April 1, 2019 the Company made a share issuance to Ganz, pursuant to his consulting agreement dated June 1, 2018. The Company issued 333,333 common shares at a price of \$0.14 per share to satisfy payment for \$46,665.

On April 1, 2019 the Company made a share issuance to Wager. The Company issued 250,000 common shares at a price of \$0.14 per share to satisfy payment for \$35,000.

On April 1, 2019 the Company made a share issuance to a corporation owned and controlled by Thrasher, pursuant to a consulting agreement. The Company issued 180,000 common shares at a price of \$0.14 for a total consideration of \$25,200.

On May 22, 2019, the Company made a share issuance to a consultant for services. The Company issued 300,000 common shares at a price of \$0.14 per share for a total consideration of \$42,000

**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 Bryan Ganz.](#)

[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 Bryan Ganz 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: August 2, 2019

By: /s/ Bryan Ganz  
Bryan Ganz, Principal Executive  
Officer

Date: August 2, 2019

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

## CERTIFICATIONS

I, Bryan Ganz, 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.

August 2, 2019

/s/ Bryan Ganz

Bryan Ganz,  
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.

August 2, 2019

/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 May 31, 2019, as filed with the Securities and Exchange Commission (the "Report") Bryan Ganz, 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.

August 2, 2019

/s/ Bryan Ganz  
Bryan Ganz, Principal Executive Officer

August 2, 2019

/s/ Rakesh Malhotra  
Rakesh Malhotra, Principal Financial Officer

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