
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **August 31, 2017**

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

For the transition period from _____ to _____

Commission File Number: **333-132456**

SECURITY DEVICES INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

71-1050654

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

107 Audubon Road, Bldg 2, Suite 201

Wakefield, MA 01880

(Address of Principal Executive Offices) (Zip Code)

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

N/A

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

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

Yes No

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

Yes No

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

Larger accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes No

As of October 15, 2017, the Company had 57,230,522 issued and outstanding shares of common stock.

SECURITY DEVICES INTERNATIONAL, INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2017

(Amounts expressed in US Dollars)

(Unaudited)

SECURITY DEVICES INTERNATIONAL, INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2017

(Amounts expressed in US Dollars)
(Unaudited)

TABLE OF CONTENTS

	Page No
<u>Interim Consolidated Balance Sheets as at August 31, 2017 and year ended November 30, 2016</u>	<u>1</u>
<u>Interim Consolidated Statements of Operations and Comprehensive Loss for the nine months and three months ended August 31, 2017 and August 31, 2016</u>	<u>2</u>
<u>Interim Consolidated Statements of Cash Flows for the nine months ended August 31, 2017 and August 31, 2016</u>	<u>3</u>
<u>Interim Consolidated Statements of Changes in Stockholders' Equity (Deficiency) for the nine months ended August 31, 2017 and year ended November 30, 2016</u>	<u>4</u>
<u>Condensed Notes to Interim Consolidated Financial Statements</u>	<u>5-16</u>

SECURITY DEVICES INTERNATIONAL, INC.
Interim Consolidated Balance Sheets
As at August 31, 2017 and November 30, 2016
(Amounts expressed in US Dollars)

	August 31, 2017 (unaudited) \$	November 30, 2016 (audited) \$
ASSETS		
CURRENT		
Cash and cash equivalent	254,894	192,826
Accounts Receivable	27,542	32,534
Inventory (Note 10)	210,303	7,323
Prepaid expenses and other receivables	<u>19,232</u>	<u>50,037</u>
Total Current Assets	511,971	282,720
Deferred financing costs (Note 9)	-	36,874
Property and Equipment (Note 3)	<u>29,813</u>	<u>50,496</u>
TOTAL ASSETS	<u>541,784</u>	<u>370,090</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	332,112	245,911
Promissory note payable (Note 12)	70,640	-
Unsecured Convertible Debentures, net of deferred financing costs of \$nil and \$35,769, respectively (Note 9)	<u>76,125</u>	<u>1,117,771</u>
Total Current Liabilities	478,877	1,363,682
Long term secured Convertible Debentures, net of deferred financing costs of \$73,012 and \$nil, respectively (Note 9)	1,821,807	-
Derivative Liability (Note 9)	<u>224,637</u>	<u>-</u>
Total Liabilities	2,525,321	1,363,682
Going Concern (Note 2)		
Related Party Transactions (Note 6)		
Commitments (Note 7)		
Subsequent Events (Note 13)		
STOCKHOLDERS' DEFICIENCY		
Capital Stock (Note 4)		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, Nil issued and outstanding (2016 - nil).		
Common stock, \$0.001 par value 100,000,000 shares authorized (2016: 100,000,000), 56,732,099 issued and outstanding (2016: 55,104,493)	56,732	55,105
Additional Paid-In Capital	27,653,025	27,307,274
Deficiency	(29,659,794)	(28,298,613)
Accumulated other comprehensive loss	<u>(33,500)</u>	<u>(57,358)</u>
Total Stockholders' Deficiency	(1,983,537)	(993,592)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	<u>541,784</u>	<u>370,090</u>

See condensed notes to the interim consolidated financial statements.

SECURITY DEVICES INTERNATIONAL, INC.

Interim Consolidated Statements of Operations and Comprehensive loss
For the Nine months and Three months Ended August 31, 2017 and August 31, 2016
(Amounts expressed in US Dollars)
(Unaudited)

	For the nine months ended August 31, 2017 \$	For the nine months ended August 31, 2016 \$	For the three months ended August 31, 2017 \$	For the three months ended August 31, 2016 \$
SALES	209,958	82,849	70,353	30,627
COST OF SALES	<u>(121,989)</u>	<u>(51,021)</u>	<u>(46,705)</u>	<u>(18,684)</u>
GROSS PROFIT	87,969	31,828	23,648	11,943
EXPENSES:				
Depreciation	42,596	34,886	17,474	11,628
Foreign currency translation loss	72,246		79,535	
General and administration	1,544,953	1,166,555	433,759	433,918
TOTAL OPERATING EXPENSES	<u>1,659,795</u>	<u>1,201,441</u>	<u>530,768</u>	<u>445,546</u>
LOSS FROM OPERATIONS	(1,571,826)	(1,169,613)	(507,120)	(433,603)
Change in fair value of derivative liabilities	664,413		157,034	
Other expense- Interest (Note 9)	<u>(453,768)</u>	<u>(174,341)</u>	<u>(150,629)</u>	<u>(58,325)</u>
LOSS BEFORE INCOME TAXES	(1,361,181)	(1,343,954)	(500,715)	(491,928)
Income taxes	-	-	-	-
NET LOSS	<u>(1,361,181)</u>	<u>(1,343,954)</u>	<u>(500,715)</u>	<u>(491,928)</u>
Foreign exchange translation adjustment for the period	23,858	(9,132)	2,062	(1,302)
COMPREHENSIVE LOSS	<u>(1,337,323)</u>	<u>(1,353,086)</u>	<u>(498,653)</u>	<u>(493,230)</u>
Loss per share - basic and diluted	<u>(0.02)</u>	<u>(0.02)</u>	<u>(0.01)</u>	<u>(0.01)</u>
Weighted average number of common shares outstanding	<u>56,115,696</u>	<u>54,615,642</u>	<u>56,732,099</u>	<u>54,615,642</u>

See condensed notes to the interim consolidated financial statements.

SECURITY DEVICES INTERNATIONAL, INC.
Interim Consolidated Statements of Cash Flows
For the Nine Months Ended August 31, 2017 and August 31, 2016
(Amounts expressed in US Dollars)
(Unaudited)

	For the nine months ended August 31, 2017 \$	For the nine months ended August 31, 2016 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	(1,361,181)	(1,343,954)
Items not requiring an outlay of cash:		
Amortization of deferred financing costs	65,915	47,892
Amortization of debt discount	174,038	-
Foreign currency translation loss	72,246	-
Accrued interest converted to convertible debentures	26,809	-
Stock-based compensation	197,378	2,574
Change in fair value of derivative liabilities	(664,413)	-
Issue of common shares for services	150,000	-
Depreciation	42,596	34,886
Changes in non-cash working capital:		
Accounts receivable	5,301	22,944
Prepaid expenses and other receivables	31,534	(55,434)
Inventory	(202,980)	27,335
Accounts payable and accrued liabilities	81,795	(83,764)
NET CASH USED IN OPERATING ACTIVITIES	(1,380,962)	(1,347,521)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(21,703)	-
NET CASH USED IN INVESTING ACTIVITIES	(21,703)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from promissory note	70,640	-
Repayment of convertible debentures	(66,640)	-
Net proceeds from convertible debentures	1,433,716	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,437,716	-
Effects of foreign currency exchange rate changes	27,017	(15,276)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT FOR THE PERIOD	62,068	(1,362,797)
Cash and cash equivalent, beginning of period	192,826	1,851,021
CASH AND CASH EQUIVALENT, END OF PERIOD	254,894	488,224
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS:		
INCOME TAXES PAID	-	-
INTEREST PAID	103,840	161,372

See condensed notes to the interim consolidated financial statements.

SECURITY DEVICES INTERNATIONAL, INC.

Interim Consolidated Statement of Changes in Stockholders' Equity (Deficiency)

For the Nine Months Ended August 31, 2017 and Year Ended November 30, 2016

(Amounts expressed in US Dollars)

(Unaudited)

	Number of Common Shares \$	Common Shares amount \$	Additional Paid-in Capital \$	Accumulated Deficit \$	Accumulated Other Comprehensive loss \$	Total \$
Balance as of November 30, 2015	54,615,642	54,616	27,179,827	(26,374,503)	(46,739)	813,201
Issue of common shares for services	488,851	489	49,511			50,000
Stock based compensation for issue of options			28,024			28,024
Stock based compensation for modification of warrants			49,912			49,912
Net loss for the year				(1,924,110)		(1,924,110)
Foreign currency translation					(10,619)	(10,619)
Balance as of November 30, 2016	55,104,493	55,105	27,307,274	(28,298,613)	(57,358)	(993,592)
Issue of common shares for services	589,414	589	49,411			50,000
Issue of common shares for services	503,251	503	49,497			50,000
Issue of common shares for services	534,941	535	49,465			50,000
Stock based compensation for issue of options			197,378			197,378
Net loss for the period				(1,361,181)		(1,361,181)
Foreign currency translation					23,858	23,858
Balance as of August 31, 2017	56,732,099	56,732	27,653,025	(29,659,794)	(33,500)	(1,983,537)

See condensed notes to the interim consolidated financial statements.

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Interim Consolidated Financial Statements
August 31, 2017
(Amounts expressed in US Dollars)
(Unaudited)

1. BASIS OF PRESENTATION

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

The unaudited interim consolidated financial statements should be read in conjunction with the financial statements and notes thereto together with management's discussion and analysis of financial condition and results of operations contained in Security Devices International Inc.'s ("SDI" or the "Company") annual report on Form 10-K for the year ended November 30, 2016. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary to fairly state the financial position of the Company at August 31, 2017 and November 30, 2016, the results of its operations for the nine and three-month periods ended August 31, 2017 and August 31, 2016, and its cash flows for the nine-month periods ended August 31, 2017 and August 31, 2016. In addition, some of the Company's statements in this quarterly report on Form 10-Q may be considered forward-looking and involve risks and uncertainties that could significantly impact expected results. The results of operations for the nine-month period ended August 31, 2017 are not necessarily indicative of results to be expected for the full year.

The Company was incorporated under the laws of the state of Delaware on March 1, 2005. On February 3, 2014 the Company incorporated a wholly owned subsidiary in Canada "Security Devices International Canada Corp". The interim unaudited consolidated financial statements for the period ended August 31, 2017 include the accounts of Security Devices International, Inc. (the "Company" or "SDI"), and its subsidiary Security Devices International Canada Corp. All material inter-company accounts and transactions have been eliminated.

2. NATURE OF OPERATIONS AND GOING CONCERN

The Company is a less-lethal defense technology company, specializing in the innovative next generation solutions for security situations that do not require the use of lethal force. SDI has implemented manufacturing partnerships to assist in the deployment of their patented and patent pending family of 40mm products. These products consist of the current manufacture of Blunt Impact Projectile 40mm (BIP) line of products, and the future Wireless Electric Projectile 40mm (WEP). The Company has also partnered with manufacturers of 12 gauge less-lethal products and .68 caliber impact and irritant rounds. All products are marketing under SDI brands.

These 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 \$29,659,794 from inception to August 31, 2017. The Company has funded operations through the issuance of capital stock and convertible debentures. The company has started to generate revenue from operations. However, it still expects to incur significant expenses 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 its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Interim Consolidated Financial Statements
August 31, 2017
(Amounts expressed in US Dollars)
(Unaudited)

2. NATURE OF OPERATIONS AND GOING CONCERN -Cont'd

In addition to raising funds in the prior years, the Company raised \$649,750 by issuance of 2,165,834 common shares during the year ended November 30, 2012. On August 15, 2013, the Company filed an amended and restated final prospectus (the "Prospectus") in Canada, in the provinces of Alberta, British Columbia and Ontario for listing its shares in these provinces in Canada. On August 27, 2013, the Company completed an initial public offering to raise gross proceeds of CAD \$3,993,980 (US \$3,794,280) through the issuance of 9,984,950 Common Shares at a price of CAD \$0.40 (US \$0.38) per Common Share (the "Issue Price"). During the year ended November 30, 2014, the Company issued \$1,398,592 (CAD \$1,549,000) face value 12% convertible debentures with a term to August 6, 2017 (the "Maturity Date") and raised net \$1,241,299. In 2015, the Company raised \$2,500,000 through the issuance of 7,575,757 common shares and also issued 105,600 common shares on exercise of warrants for \$16,775 and 35,000 common shares on exercise of options for \$6,995. During the quarter ended February 28, 2017, the Company issued \$1,500,000 face value 10% convertible debentures with a term to June 6, 2019 (the "Maturity Date"). The Company's common shares commenced trading on the TSX Venture Exchange ("TSX") under the symbol "SDZ".

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Interim Consolidated Financial Statements
August 31, 2017
(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	30%	declining balance method
Software	40%	declining balance method
Furniture and Fixtures	30%	declining balance method
Leasehold Improvements		straight line over period of lease
Moulds	20%	straight line over 5 years

	August 31, 2017		November 30, 2016	
	Cost \$	Accumulated Amortization \$	Cost \$	Accumulated Amortization \$
Computer equipment	49,802	37,852	37,573	35,410
Software	4,000	800		
Furniture and fixtures	20,998	17,478	18,027	16,648
Leasehold Improvements	26,471	26,471	23,721	19,338
Moulds	209,515	198,372	209,515	166,944
	<u>310,786</u>	<u>280,973</u>	<u>288,836</u>	<u>238,340</u>
Net carrying amount		\$ 29,813		\$ 50,496
Depreciation expense		\$ 42,596(6 months)		\$ 46,515(12 months)

4. CAPITAL STOCK

a) Authorized

100,000,000* 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 (refer to note 13-subsequent events).

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

56,732,099 Common shares (November 30, 2016: 55,104,493 Common shares)

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Interim Consolidated Financial Statements
August 31, 2017
(Amounts expressed in US Dollars)
(Unaudited)

4. CAPITAL STOCK-Cont'd

c) Changes to Issued Share Capital

Year ended November 30, 2016

Effective July 21, 2016, Bryan Ganz was elected as a director of the Company. Prior to his appointment, effective May 1, 2016, the Company executed a one-year consulting agreement with a Corporation in which the said director has an ownership interest. For the consultant services, the consultant was paid cash for \$50,000 and issued a value of \$200,000 in Company's stock in four quarterly instalments over the 12-month period ending May 15, 2017. In September 2016, the Company issued 488,851 common stock to the consultant being the first quarterly instalment for a value of \$50,000 which was due August 15, 2016.

Nine- months ended August 31, 2017

In January 2017, the Company made the second share issuance to Northeast Industrial Partners under the consulting agreement announced on June 20, 2016. The Company issued 589,414 common shares at a price of \$0.1142 per share to satisfy the payment of USD \$50,000 due on November 15, 2016. The issuance of shares to Northeast Industrial Partners is the second of four such issuances to occur over the period ending May 15, 2017. (See note 7)

In March 2017, the Company made the third share issuance to Northeast Industrial Partners under the consulting agreement announced on June 20, 2016. The Company issued 503,251 common shares at a price of \$0.0994 per share to satisfy the payment of USD \$50,000 due on February 15, 2017. The issuance of shares to Northeast Industrial Partners is the third of four such issuances to occur over the period ending May 15, 2017. (See note 7)

In May 2017, the Company made the fourth and final share issuance to Northeast Industrial Partners under the consulting agreement announced on June 20, 2016. The Company issued 534,941 common shares at a price of \$0.0935 per share to satisfy the payment of USD \$50,000 due on May 15, 2017. The issuance of shares to Northeast Industrial Partners is the fourth and final of four such issuances to occur over the period ending May 15, 2017. (See note 7)

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Interim Consolidated Financial Statements
August 31, 2017
(Amounts expressed in US Dollars)
(Unaudited)

5. STOCK BASED COMPENSATION

Effective May 31, 2013, the Company adopted an incentive stock option plan (the "2013 Plan"), which replaces the stock option and stock bonus plans that were in place prior to adoption of the 2013 Plan. All outstanding options to purchase Common Shares granted by the Company under the prior plans are now governed by the 2013 Plan and the prior plans (an Incentive Stock Option Plan, a Non-Qualified Stock Option Plan, and a Stock Bonus Plan) have been terminated.

The purpose of this Plan is to authorize the grant to Eligible Persons of the Company of Options to purchase Shares and thus benefit the Company by enabling it to attract, retain and motivate Eligible Persons by providing them with the opportunity, through Options, to acquire an increased proprietary interest in the Company.

The maximum number of Shares which may be reserved for issuance to any one Consultant under the Plan, any other employer stock options plans or options for services, within any 12-month period, shall be 2% of the Shares issued and outstanding at the time of the grant (on a non-diluted basis).

The maximum number of Shares which may be reserved for issuance to Investor Relations Optionees under the Plan, any other employer stock options plans or options for services, within any 12-month period shall be 2% of the Shares issued and outstanding at the time of the grant (on a non-diluted basis).

The maximum number of Shares which may be reserved for issuance to insiders of the Company in any 12-month period shall be 10% of the Shares issued and outstanding at the start of such 12-month period (on a non-diluted basis).

The purchase price (the "Price") for the Shares under each Option shall be determined by the Board of Directors or Committee, as applicable, on the basis of the market price, where "market price" shall mean the prior trading day closing price of the Shares on any stock exchange on which the Shares are listed or last trading price on the prior trading day on any dealing network where the Shares trade, and where there is no such closing price or trade on the prior trading day, "market price" shall mean the average of the daily high and low board lot trading prices of the Shares on any stock exchange on which the Shares are listed or dealing network on which the Shares trade for the five (5) immediately preceding trading days. In the event the Shares are listed on the TSXV, the price may be the market price less any discounts from the market price allowed by the TSXV, subject to a minimum price of CDN\$0.10.

Year ended November 30, 2016

Warrants:

On June 9, 2016, the board of directors extended the expiry dates of 400,000 warrants issued in 2012 to a director at exercise price of \$0.20, from original expiry date of August 9, 2016 to August 7, 2020. The change in the terms of the warrants was determined to be a modification and not a cancellation and issuance of a new warrant. As a result of these modifications, the fair value of 400,000 warrants increased by \$49,912.

Fair value of warrants was calculated using the Black Scholes option pricing model with the following assumptions:

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Interim Consolidated Financial Statements
August 31, 2017
(Amounts expressed in US Dollars)
(Unaudited)

Risk free rate		2.00%
Expected dividends		0%
Forfeiture rate		0%
Volatility		101.25% to 150.29%
Warrant modification expense	\$	49,912

Stock Options:

On August 18, 2016, the board of directors granted options to a consultant to acquire a total of 25,000 common shares. These options were issued at an exercise price of \$0.11 (CAD \$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 calculated using the Black-Scholes option pricing model with the following assumptions:

Risk free rate		2.00%
Expected dividends		0%
Forfeiture rate		0%
Volatility		163.68%
Market price of Company's common stock on date of grant of options	\$	0.11
Stock-based compensation cost	\$	2,574

On October 20, 2016, the board of directors granted options to a new director to acquire a total of 350,000 common shares. These options were issued at an exercise price of \$0.08 (CAD \$0.11) 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 calculated using the Black-Scholes option pricing model with the following assumptions:

Risk free rate		2.00%
Expected dividends		0%
Forfeiture rate		0%
Volatility		149.08%
Market price of Company's common stock on date of grant of options	\$	0.08
Stock-based compensation cost	\$	25,450

As of November 30, 2016, there was \$Nil of unrecognized expense related to non-vested stock-based compensation arrangements granted.

Nine- month period ended August 31, 2017

Warrants:

The Company did not issue any warrants during the nine- month period ended August 31, 2017.

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Interim Consolidated Financial Statements
August 31, 2017
(Amounts expressed in US Dollars)
(Unaudited)

Nine- month period ended August 31, 2017-Cont'd

Stock Options:

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

Risk free rate	2.00%
Expected dividends	0%
Forfeiture rate	0%
Volatility	134.27%
Market price of Company's common stock on date of grant of options	\$ 0.10
Stock-based compensation cost expensed	\$ 44,624
Unvested stock based compensation expense	\$ 55,781

On May 26, 2017, the board of directors granted 895,000 options to directors and 75,000 options to a consultant to acquire a total of 970,000 common shares. These options were issued at an exercise price of \$0.15 (CAD \$0.20) 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 calculated using the Black-Scholes option pricing model with the following assumptions:

Risk free rate	2.00%
Expected dividends	0%
Forfeiture rate	0%
Volatility	127.9%
Market price of Company's common stock on date of grant of options	\$ 0.15
Stock-based compensation cost expensed	\$ 124,326
Unvested stock based compensation expense	\$ Nil

On June 19, 2017, the board of directors granted options to an employee to acquire a total of 150,000 common shares. These options were issued at an exercise price of \$0.16 (CAD \$0.20) 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 calculated using the Black-Scholes option pricing model with the following assumptions:

Risk free rate	2.00%
Expected dividends	0%
Forfeiture rate	0%
Volatility	128.8%
Market price of Company's common stock on date of grant of options	\$ 0.14
Stock-based compensation cost expensed	\$ 17,795
Unvested stock based compensation expense	\$ Nil

On August 10, 2017, the board of directors granted options to a new director to acquire a total of 96,667 common shares. These options were issued at an exercise price of \$0.16 (CAD \$0.20) per share and vest immediately and expire August 16, 2022. The fair value of each option used for the purpose of estimating the stock compensation is calculated using the Black-Scholes option pricing model with the following assumptions:

Risk free rate	2.00%
Expected dividends	0%
Forfeiture rate	0%
Volatility	129.9%
Market price of Company's common stock on date of grant of options	\$ 0.13
Stock-based compensation cost expensed	\$ 10,633
Unvested stock based compensation expense	\$ Nil

As of August 31, 2017, there was \$55,781 of unrecognized expense related to non-vested stock-based compensation arrangements granted.

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Interim Consolidated Financial Statements
August 31, 2017
(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 exchange amount, which is the amount of consideration established and agreed to by the related parties.

Nine months ended August 31, 2017

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

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

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

Nine months ended August 31, 2016

The directors were compensated as per their consulting agreements with the Company. The Company expensed a total of \$208,400 as management fees to two of its directors in their role as officers in accordance with their consulting contracts, which included \$57,600 paid on full and final settlement to one director in his role as CEO on his resignation and termination effective July 15, 2016, and also expensed a total of \$5,900 as automobile allowance. In addition, the Company expensed \$42,200 as a consulting fee to an independent director for services provided.

The Company expensed \$16,400 for services provided by the CFO of the Company and \$154,900 for services provided by a Corporation in which the Chief Operating Officer (who was later elected interim CEO and President effective July 16, 2016) has an ownership interest, in accordance with the consulting contract.

Effective July 21, 2016, Bryan Ganz was elected as a director of the Company. Prior to his appointment, effective May 1, 2016, the Company executed a one-year consulting agreement with a Corporation in which the said director has an ownership interest. The said Corporation was paid cash of \$25,000 in May, 2016 and \$25,000 in June, 2016.

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Interim Consolidated Financial Statements
August 31, 2017
(Amounts expressed in US Dollars)
(Unaudited)

7. COMMITMENTS

a) Consulting agreements:

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

The Company executed an employment agreement with the CEO of the Company which term extends to June 30, 2018. The CEO is to be paid an annual salary of \$150,000 (CAD \$200,000) plus benefits. In addition, the Company will pay a performance bonus of 3% of net profits before taxes and granted 1,150,000 stock options with a five- year expiry term. The Company must pay 4 months of pay for termination without cause.

Effective July 21, 2016, Bryan Ganz was elected as a director of the Company. Prior to his appointment, effective May 1, 2016, the Company executed a one-year consulting agreement with Northeast Industrial Partners, LLC ("NEIP"), a Corporation in which the said director has an ownership interest. In January, 2017, the Company issued 589,414 common shares at a price of \$0.1142 per share to satisfy the payment of USD \$50,000 due on November 15, 2016. In March 2017, the Company made the third share issuance and issued 503,251 common shares at a price of \$0.0994 per share to satisfy the payment of USD \$50,000 due on February 15, 2017. In May 2017, the Company made the fourth and final share issuance and issued 534,941 common shares at a price of \$0.0935 per share to satisfy the payment of USD \$50,000 due on May 15, 2017. Effective May 1, 2017, the Company and NEIP renewed the agreement for the period of time until such date as either of them terminates the original contract on not less than 15 days prior written notice to the other party. For services rendered by NEIP during the extension, SDI shall pay NEIP \$62,500 within 15 days following every consecutive three-month period during the extension. All payments of the consulting fee during the extension shall be made by the issuance of common shares in the capital of SDI. The number of shares issued is calculated by dividing the volume weighted average trading price per SDI common shares for the 20 day period proceeding the due date. (see also Note 13-subsequent events)

Effective January 1, 2017, the Company executed a one-year service agreement with NEIP a Corporation in which Bryan Ganz, Director has an ownership interest to pay compensation of \$7,500 per month. The said Corporation will assist the Company with administrative services which will include accounting, production, inventory management and human resources. The agreement is for a period of one year and can be terminated by either party by giving 60 days' notice in writing.

Effective April 2014, SDI executed an agreement with a non-related consultant to set up its social media sites and optimization of search engines for the Company, at a start- up fee for \$2,250 (CAD\$3,000) (Phase 1) and payment of \$2,250 (CAD\$3,000) per month and issued 150,000 stock options at \$0.32 (CAD\$0.38) when Phase 2 of the project was implemented. Either party can terminate the agreement by giving 30 days' notice.

b) The Company has commitments for leasing office premises in Oakville, Ontario, Canada to April 30, 2018 at a monthly rent of \$4,800 (CAD \$6,399).

c) Effective January 1, 2017, the Company executed a commercial lease for leasing warehouse space in Perry, Florida. The lease is for an initial three-year term at a monthly lease payment of \$3,250. The said lease can be renewed for an additional three-year term with a 10% increase. Effective August 31, 2017, both parties terminated this lease.

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Interim Consolidated Financial Statements
August 31, 2017
(Amounts expressed in US Dollars)
(Unaudited)

8. EXCLUSIVE SUPPLY AGREEMENT

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. 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.

9. CONVERTIBLE DEBENTURES AND DEFERRED FINANCING COSTS

a) \$76,125 Unsecured Convertible Debentures

On August 6, 2014, the Company issued a Canadian \$1,549,000 face value 12% convertible debentures with a term to August 6, 2017 (the "Maturity Date"). At any time while the debentures are outstanding, the holder has the option to convert the outstanding principal of the debentures into common shares of the Company at a fixed conversion price of CAD \$0.50 per share. At any time after February 6, 2015, the Company has the right to force the conversion of the debentures into common shares at a price of at least CAD\$0.65 per common share for a period of at least 20 consecutive trading days. If the common shares do not trade on any trading day and the bid price of the common Shares is CAD \$0.65 or greater, the common shares shall be deemed to have traded at a price of at least CAD \$0.65 on that trading day. Additionally, the Company has the right to redeem the debentures, in whole or in part, (a) during the 12 months ending August 6, 2015, at a premium of 15% to the principal amount being redeemed plus any accrued interest, (b) during the 12 months ending August 6, 2016, at a premium of 5% to the principal amount being redeemed plus any accrued interest, (c) during the 12 months ending August 6, 2017, at a premium of 2% to the principal amount being redeemed plus any accrued interest. In connection with the financing, the Company issued warrants to placement agents to purchase 151,900 shares of common stock at an exercise price of CAD \$0.50 per share. Additionally, the Company incurred \$157,293 (CAD \$174,209) in financing fees.

The Company evaluated the terms and conditions of the convertible debentures and placement agent warrants under the guidance of ASC 815. The conversion feature met the definition of conventional convertible for purposes of applying the conventional convertible exemption. The definition of conventional contemplates a fixed number of shares issuable under the arrangement. The instrument was convertible into a fixed number of shares and there were no down round anti-dilution protection features contained in the contracts. The Company was required to consider whether the hybrid contract embodied a beneficial conversion feature ("BCF"). The debentures did not result in a BCF because the conversion price was not in the money on the inception date. There were no terms or features contained in the warrant agreement that would preclude the warrants from achieving equity classification.

The following table reflects the allocation of the purchase on the financing date:

Convertible Debentures - Face Value	\$ 1,398,342
Proceeds	\$ (1,279,773)
Deferred financing costs	(190,876)
Paid in capital (warrants)	33,583
Prepaid expenses	16,681
Accrued expenses	21,793
Convertible debentures	<u>1,398,592</u>

As of November 30, 2016, these unsecured convertible debentures, net of unamortized deferred financing costs, were recorded at \$ 1,117,771 on exchange rate conversion.

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

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Interim Consolidated Financial Statements
August 31, 2017
(Amounts expressed in US Dollars)
(Unaudited)

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

Unsecured convertible debentures

	Unsecured Convertible Debentures	Deferred financing costs	Unsecured Convertible Debenture (Net)
	\$	\$	\$
Balance as of November 30, 2016	(1,153,540)	35,769	(1,117,771)
Exchange for subordinate secured debentures	1,015,026		1,015,026
Amortization of deferred financing costs		(35,769)	(35,769)
Repayment of unsecured convertible debentures	66,640		66,640
Foreign currency translation	(4,251)		(4,251)
Balance as of August 31, 2017	(76,125)	-	(76,125)

On August 6, 2017, the Company repaid \$66,640 of convertible debentures and balance convertible debenture holders for \$76,125 executed agreements for forbearance of their debt with new repayment date to February 16, 2018.

b) Long-term subordinate and secured convertible debentures \$1,669,356

(i) Subordinate convertible debentures

	Subordinate secured Debentures	Deferred financing costs	Subordinate secured Debentures (Net)
Balance as of November 30, 2016	-	-	-
Exchange from unsecured convertible debentures	(1,015,026)	-	(1,015,026)
Accrued interest converted to subordinate secured debentures	(26,809)		(26,809)
Foreign currency translation	(67,995)	-	(67,995)
Balance as of August 31, 2017	(1,109,830)	-	(1,109,830)

The \$1,015,026 (CAD\$1,363,000) of Subordinate Secured Debentures were issued pursuant to the Indenture in exchange for the Unsecured Debentures in equal principal amount and an additional \$26,809 (CAD\$36,000) of Subordinate Secured Debentures were issued pursuant to the Indenture in payment of accrued interest. The Subordinate Secured Debentures mature on June 6, 2019 and bear interest at 12% per annum payable, semiannually.

The Subordinate Secured Debentures are convertible into common shares of the Company's Common Stock at the Note Conversion Price so long as any Secured Notes are outstanding, and thereafter, subject to adjustment as set forth in the Indenture.

(ii) Secured convertible debentures

On December 7, 2016, the Company issued a \$1,500,000 10% secured convertible debenture with a term to June 9, 2019 (the "Maturity Date"). The holder has the option to convert the outstanding principal and interest into common stock at a conversion price of \$0.24 per share. The conversion price is subject to adjustments in the event of subsequent equity issuances at a price per share below \$0.24.

The Company has evaluated the terms and conditions of the convertible bridge loan and detachable warrants under the guidance of ASC 815. Even though the instrument's conversion price used to calculate the settlement amount is not fixed the embedded conversion feature is still considered "indexed to an entity's own stock" under the guidance of ASC 815 because the only variables that could affect the settlement amount are inputs to the fair value of a fixed-for-fixed forward or option on equity shares. However, the conversion feature did not meet the conditions for equity classification provided in paragraphs 11 through 35 of ASC 815-40-25 because due the contracts contain a security agreement which requires the posting of collateral. Therefore, the conversion feature requires bifurcation and liability classification.

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Interim Consolidated Financial Statements
August 31, 2017
(Amounts expressed in US Dollars)
(Unaudited)

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

The following table reflects the allocation of the purchase on the financing date:

Convertible Debentures	\$ 1,500,000 Face Value
Proceeds	\$ (1,396,842)
Embedded conversion feature	889,050
Deferred financing costs	(103,158)
Convertible debentures	<u>610,950</u>

For the nine months ended August 31, 2017 the Company recorded amortization of debt discount in the amount of \$174,038, amortization of deferred financing costs in the amount of \$30,146, and accrued interest of \$109,727.

The interest due and payable on May 31, 2017 remained unpaid. The Company and the holder agreed that the unpaid installment of interest will accrue and be paid on October 31, 2017.

c) Derivative Financial Liabilities

The following tables summarize the components of our derivative liabilities and linked common shares as of August 31, 2017:

	<u>August 31, 2017</u>
Derivative liabilities:	
Embedded derivatives	<u>\$ 224,637</u>
	<u>August 31, 2017</u>
Common shares linked to derivative liabilities:	
Embedded derivatives	<u>6,250,000</u>

The following table summarizes the amounts that were reflected in our income related to our derivatives for the nine months ended August 31, 2017:

	<u>Nine Months Ended August 31, 2017</u>
Change in fair value of derivative liabilities	
Embedded derivatives	<u>\$ 664,413</u>

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Interim Consolidated Financial Statements
August 31, 2017
(Amounts expressed in US Dollars)
(Unaudited)

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

Current accounting principles that are provided in ASC 815 - *Derivatives and Hedging* require derivative financial instruments to be classified in liabilities and carried at fair value with changes recorded in income. In addition, the standards do not permit an issuer to account separately for individual derivative terms and features embedded in hybrid financial instruments that require bifurcation and liability classification as derivative financial instruments. Rather, such terms and features must be bundled together and fair valued as a single, compound embedded derivative. We have selected the Monte Carlo Simulations valuation technique to fair value the compound embedded derivative because we believe that this technique is reflective of all significant assumption types, and ranges of assumption inputs, that market participants would likely consider in transactions involving compound embedded derivatives. Such assumptions include, among other inputs, interest risk assumptions, credit risk assumptions and redemption behaviors in addition to traditional inputs for option models such as market trading volatility and risk-free rates. We have selected Binomial Lattice to fair value our warrant derivatives because we believe this technique is reflective of all significant assumption types market participants would likely consider in transactions involving freestanding warrants derivatives. The Monte Carlo Simulations ("MCS") technique is a level three valuation technique because it requires the development of significant internal assumptions in addition to observable market indicators.

Significant inputs and results arising from the Monte Carlo Simulations process are as follows for the share purchase options that have been bifurcated from our debentures and classified in liabilities as of August 31, 2017 and December 7, 2016 (Inception):

	August 31, 2017
Underlying price on valuation date	\$ 0.13
Contractual conversion rate	\$ 0.24
Contractual term to maturity	22 months
Market volatility	80.45%
Contractual interest rate	10.00%

	December 7, 2016
Underlying price on valuation date	\$ 0.22
Contractual conversion rate	\$ 0.24
Contractual term to maturity	2.50 Years
Market volatility	110%
Contractual interest rate	10.00%

The following table reflects the issuances of compound embedded derivatives during the nine months ended August 31, 2017.

	Nine Months Ended August 31, 2017
Balances at December 1, 2016	\$ —
Issuances	889,050
Changes in fair value inputs and assumptions reflected in income	(664,413)
Balances at August 31, 2017	\$ 224,637

SECURITY DEVICES INTERNATIONAL, INC.
Notes to Interim Consolidated Financial Statements
August 31, 2017
(Amounts expressed in US Dollars)
(Unaudited)

10. INVENTORY

Inventory as of August 31, 2017 consist of finished goods of Blunt Impact Projectiles 40mm for \$119,920 and inventory acquired from outside manufacturers for sale for \$90,383.

11. SEGMENT DISCLOSURES

The Company is organized into two geographic areas in the U.S.A. and Canada respectively. The U.S.A. and Canada operations are our operating segments and reportable segments, and each of those segments are led by our CEO. Performance is assessed and resources are allocated by our CEO, whom we have determined to be our Chief Operating Decision Maker (CODM). Management evaluates the segments based primarily upon revenue and assets. The tables below present segment sales and assets for the nine months ended August 31, 2017 and August 31, 2016:

Nine months ended August 31, 2017

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

Nine months ended August 31, 2016

	SDI	SDI Canada	Total
Sales	\$ 47,945	\$ 34,904	\$ 82,849

	2017	2016
Sales	\$ 255,949	\$ 109,578
Elimination of intersegment revenue	(45,991)	(26,729)
Consolidated sales	\$ 209,958	82,849

Nine months ended August 31, 2017

	SDI	SDI Canada	Total
Assets	\$ 486,681	\$ 55,103	\$ 541,784

Nine months ended August 31, 2016

	SDI	SDI Canada	Total
Assets	\$ 579,906	\$ 145,139	\$ 725,045

12. PROMISSORY NOTE PAYABLE

On August 10, 2017, the Company issued a promissory note to a director of the Company for cash advance receipt for \$70,640 (CAD \$89,040). Interest is payable on the said note at 12% per annum. Both the principal and interest are due and payable on February 16, 2018. The Company accrued \$490 as interest for the period ended August 31, 2017.

13. SUBSEQUENT EVENTS

In September 2017, the Company made the first share issuance to NEIP under the renewed consulting agreement effective May 1, 2017. The Company issued 498,423 common shares at a price of \$0.125 per share to satisfy the payment of \$62,500 due for the period May 1, 2017 to July 31, 2017, on August 15, 2017. The shares are subject to a four-month hold period. Northeast Industrial Partners is controlled by Bryan Ganz, who was appointed to the board of directors of SDI after the consulting agreement was entered.

Effective September 7, 2017, Keith Morrison and Karim Kanji resigned as members of the Board of directors.

Effective October 1, 2017, the Company appointed Paul Jensen as President and COO of the Company at a compensation of \$200,000 per annum. From October 1, 2017 through June 30, 2018, the salary is payable entirely by issue of Company stock, to be issued 15 days after the end of each calendar quarter. Commencing July 1, 2018, the Company will pay \$10,000 per month in cash and the balance in Company stock. At such time the Company can pay the entire salary in cash and be cash positive, the entire monthly salary will be paid in cash.

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.

PART II

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

THREE MONTHS ENDED AUGUST 31, 2017

The following discussion and analysis of the financial condition and results of Security Devices International, Inc. (also referred to as "we", "us", "our", "SDI", or the "Company"), should be read in conjunction with the Company's financial statements (and related notes) as at November 30, 2016.

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

ITEM 1. BUSINESS

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

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

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

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

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

Business

History

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

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

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

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

The Blunt Impact Projectile (BIP) – A Transformative Technology

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

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

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

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

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

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

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

Early in 2011 the Company focused its attention on a new 40mm product, the blunt impact projectile ("BIP"), and discontinued further development work on the WEP.

2012

In June 2012, the Company contracted CRT Less Lethal Inc. ("CRT") to test the BIP. Based on data obtained from the three-stage evaluation, the BIP passed the CRT testing protocol for accuracy, consistency, relative safety and effectiveness.

In July 2012, the Company signed a five-year development, supply and manufacturing agreement with a subcontractor to Manufacture the BIP.

In November 2012, the Company obtained a United States Department of Transportation number (DOT#) required in order for the Company to ship BIP rounds.

In 2012, the Company began the development of six new less-lethal ammunition rounds. These new rounds will be a modified version of the BIP, four of which carry a payload, including; BIP MP (temporary powder-based marking agent), BIP ML (semi-permanent liquid marking agent), BIP OC (Oleoresin Capsicum - a pepper spray powder), BIP CS (tear gas powder), BIP MO (malodorant liquid), and the BIP TR (training round).

2013

The Company moved its full manufacturing and supply chain operations to the BIP manufacturer, a supply manufacturing and engineering company, in the Boston, MA area.

The Company undertook an Initial Public Offering (IPO) in January and became a public reporting issuer on the TSX-Venture Exchange in September 2013.

2014

SDI began another globally recognized testing protocol with a military agency called HECO (the Human Effects Centre of Excellence). This world-renowned agency is located in the Air Force Research Laboratory (AFRL), in partnership with the US Joint Non-lethal Weapons Directorate (JNLWD). This group conducts research to assist Non-lethal Weapon (NLW) Program Managers across the U.S. Department of Defense (DoD) in assessing effectiveness and risks of NLWs. The positive conclusion of this testing allows the DOD to purchase SDI rounds.

April - SDI appointed Keith Morrison to the board of directors as non-executive Chairman

May - SDI's BIP rounds were used at the Mock Prison Riot in West Virginia. Law enforcement and correctional services officers provided feedback on new technologies (such as SDI's products) to assist in the effectiveness of their jobs.

August - The Company completed the issuance of 1,549 convertible unsecured debentures at \$1,000 per debenture for gross proceeds of \$1,549,000 (the "Private Placement").

October - Security Devices International Inc. announced that the Company and a division of Abrams Airborne Manufacturing Inc. (AAMI), namely Milkor USA (MUSA), have agreed to partner for a joint cross-selling / marketing initiative.

November - The Company named Karim Kanji to the board of directors as an independent member.

SDI has sold their BIP products into nine new agencies during the fiscal year of 2014 including Sheriff Departments, Correctional Services, and SWAT teams in; Saskatoon, SK, Watertown, SD, Abbotsford, BC, Sacramento, CA, Kingston, ON, Rustburg, VA, Orlando, FL, Montreal, QC, and Bedford, VA. These agencies are additions to SDI's customer base that have adopted its 40mm less-lethal rounds.

2015

In January 2015, SDI commenced a public relations program and through the year, SDI has been featured in over 800 media outlets globally, including live interviews on FOX television, News One in New York, and CP24 in Toronto.

During the second quarter, SDI attended the American Jail Association's annual conference in North Carolina and performed a live fire demonstration to numerous State and local Agencies while in North Carolina.

During Q2, SDI also attended the Canadian Tactical Conference in Collingwood, Ontario as well as the New York Tactical Conference in Verona, New York.

Through SDI's distributor (U.S. Tactical Supply- GSA) the Company was able to leverage their relationship to facilitate a live-fire demonstration for the Pentagon Protection Force in Alexandria, Virginia.

In May - SDI participated in the "Mock Prison Riot" which takes place annually at a decommissioned penitentiary in Moundsville, West Virginia. The Mock Prison Riot is a four-day, comprehensive law enforcement and corrections tactical and technology experience, including 40,000 square feet of exhibit space, training scenarios, technology demonstrations, certification workshops, a Skills Competition, and unlimited opportunities for feedback and networking on a global scale.

SDI staff attended the Ohio Tactical officers conference in June where the Company not only had a full exhibit booth set up to bring awareness to SDI's full line of less lethal 40MM products but also conducted live fire demonstrations to several agencies. These agencies had requested seeing the projectiles fired to move forward with evaluation of SDI's products for potential inclusion in their less lethal arsenal.

July - SDI was invited to present the company's full line of products to the New York City Police Department. Representatives of SDI attended the NYPD range and conducted in-class presentations followed by a live fire demonstration showcasing the full line on 40MM products that SDI can offer for Law Enforcement operational missions.

July - The Associated Press ("AP"), conducted interviews with SDI management and attended SDI's manufacturing partners' location for an in depth look at the company and the technology. The AP completed a story on the uniqueness of the product line and the increased element of safety that SDI's products offer, and released the story to the newswire, where it was picked up by over 800 media outlets, worldwide.

August - SDI was invited to present to the Toronto Police Service ("TPS"), who are currently exploring less lethal options for front line officers. A full presentation was given to decision makers of the TPS and a follow-up live fire demonstration is to occur.

September – SDI conducted their Annual General Meeting and shareholders approved the following:

- 1) The Board of Directors, as it stands today, was re-elected.
- 2) Schwartz Levitsky Feldman, LLP was re-appointed as SDI's auditors.
- 3) Approval of an amendment to Company's by-laws concerning the quorum required to hold a meeting of shareholders.
- 4) Approval of the Company's incentive stock option plan.
- 5) Approval of an amendment to the Company's articles to prohibit the issuance of shares of preferred stock having multiple voting attributes.

In FY2015, SDI added 24 new Law Enforcement and Correctional Agencies to its paid customer base. The Company as at fiscal yearend holds 40 agencies as customers.

Q1 FY2016

In December 2015, SDI was invited to conduct a full product briefing and live fire demonstration for key Management with the United States Federal Bureau of Prisons. SDI was able to showcase the innovation of the BIP family of products and demonstrate the clear difference between SDI's products and other products on the market.

In January 2016, SDI management attended the SHOT show in Las Vegas and met with numerous existing partners and explored future partnerships with several other Industry leaders.

During the SHOT show SDI's rounds were used by AAMI, an existing partner of SDI, during a new product innovation range day that was attended by the majority of Companies in the firearms industry.

During Q1, SDI announced that it received its first sale of 40MM launchers to a Law Enforcement Agency. This is an important step for SDI to be seen as having the availability to access other less lethal products to fulfil customer requests.

In January, SDI and Clyde Armory, signed a distribution agreement whereas Clyde will offer SDI's product line to Law Enforcement customers in their catchment area. Clyde is a full service gun store which supplies firearms, ammunition and accessories to Law Enforcement and Civilian customers. They are based in Athens, Georgia.

During this quarter, the non-exclusive renewable Technology License and Supply Agreement that was signed with United Tactical Solutions on April 17, 2015, was terminated by SDI management effective February 25, 2016.

On February 29, 2016, SDI signed a term sheet with an existing defense technology (less lethal) company to acquire that Company. This acquisition, if completed, will give SDI a diversified line of less lethal munitions, launchers and accessories as well as opening domestic and global distribution channels.

Q2 FY2016

During the second quarter of 2016, the Company continued to pursue the targeted acquisition through several funding sources, and financing structures. Subsequent to the quarter, on July 8, 2016, the Company announced that it had identified a number of items in the target company's (the "Target") financial statements that raised concerns in support of the negotiated price of the transaction. SDI has terminated discussions with the Target at this time.

Subsequent to the quarter, the Company announced that Gregory Sullivan had resigned as President and CEO to pursue other opportunities, effective July 15, 2016. Dean Thrasher, the current COO and a member of the SDI board of directors will assume the interim role of President and CEO. Mr. Sullivan will remain on the board of directors until his replacement is appointed and receives stock exchange clearance, or September 1, 2016, whichever occurs first.

The Company signed a one-year consulting agreement with Northeast Industrial Partners LLP ("Northeast"), which is headed up by Mr. Bryan Ganz. Northeast will assist SDI with sales & marketing, expansion of the Company's product range, review of operations, implementation of cost control measures, development of strategic alliances and financial oversight. Mr. Ganz brings more than 30 years of experience in sales management, manufacturing, new product design and development as well as mergers & acquisitions. During his career Mr. Ganz has bought, built and sold more than half a dozen global businesses with combined sales in excess of \$1.0 billion. Most recently, Mr. Ganz sold Maine Industrial Tire LLC to Trelleborg (based out of Sweden), for \$67 million generating a 7.0x return to investors over a three-year period.

For their services and subject to stock exchange approval, Northeast will be issued a value of US\$200,000 in SDI stock in four quarterly instalments over the 12-month period ending May 15, 2017. The first quarterly instalment is due August 15, 2016. The stock will be priced at the volume weighted average trading price per common share over the 20-day period preceding the due date. The stock will vest at the end of the contract with Northeast.

NEIP is currently the controlling shareholder in two operating businesses and a 250-unit residential real estate portfolio in the New England area. Northeast also owns minority stakes in a number of public and private businesses including a California company developing wireless electricity. Mr. Ganz is a graduate of Columbia Law School in New York City and completed his accounting designation at Georgetown University in Washington DC.

The Company wishes to inform the market that a Schedule 13D was filed with the SEC on June 8, 2016 by SDI's largest group of shareholders in the US, holding approximately 10,474,522 shares. The 13D filing by the "reporting persons" relates to the maximizing of shareholder value with the intention of engaging more substantively with management, the board of directors and other relevant parties on matters concerning the business, assets, capitalization, operations and strategy of SDI. The 13D filing says that the reporting person may also discuss strategic alternatives with interested parties to propose or consider extraordinary transactions including joint ventures, mergers or a sale transaction of the Company.

Q3 FY2016

During Q3 2016 SDI announced that it has terminated its proposed acquisition of a less-lethal company, as previously released on May 13, 2016, and April 21, 2016.

During the Company's due diligence process, SDI identified a number of items in the target company's (the "Target") financial statements that raised concerns in support of the negotiated price of the transaction. SDI terminated discussions with the Target during this quarter.

SDI's management continues to look for acquisitions and strategic partnerships in the less-lethal sector, to broaden its product offering and increase its distribution reach. SDI is currently in preliminary discussions to license its collapsible technology to other less lethal market participants. SDI's objective is to both (1) increase revenues and (2) gain greater market acceptance for the BIP.

During Q3, SDI appointed Bryan Ganz to the board of directors. With the appointment of Mr. Ganz to the board of directors, the previously announced resignation of Greg Sullivan (previous CEO) as a director becomes effective.

During Q3 SDI reported that it has made the first share issuance to Northeast Industrial Partners under the consulting agreement announced on June 20, 2016. SDI issued 488,851 common shares at a price of \$ 0.1023 (CAD \$0.1322) per share to satisfy the payment of USD \$50,000 due on August 15, 2016. The shares will be subject to a four-month hold period expiring on January 13, 2017, and will not vest until May 2017.

The issuance of shares to Northeast Industrial Partners is the first of four such issuances to occur over the period ending May 15, 2017, as described in the June 20, 2016 news release.

Q4 FY2016

During Q4 the Company announced the signing of a sales and distribution agreement with the Bob Barker Company (“Bob Barker”), the nation’s preeminent correctional services supplier, for distribution of SDI’s products through their Officers Only distribution network.

A division of the Bob Barker Company, “Officers Only” is a reliable source for quality apparel and offers a broad and diverse product line-up of protective and essential equipment that are brand recognized and trusted by law enforcement, corrections, military and public service office. SDI will continue to look for qualified distributors as part of its new sales and marketing strategy with a goal of tripling the number of SDI distributors by the end of 2017.

On September 15, 2016 Allen Ezer resigned as Executive Vice President to pursue other opportunities.

During the quarter, the Company appointed Karen Bowling to the board of directors. Ms. Bowling brings more than 25 years of diverse executive management experience to the board of SDI. Some of her skill-sets include; government affairs, lobbying, public relations, government procurement, marketing, communications, operations, and local and state level legislation. Ms. Bowling has also spent part of her career in the less-lethal sector for a long-range acoustic hailing device company.

Karen's recent positions include; Public Affairs Director at Foley & Lardner LLP, CEO at WiseEye AI, (an artificial intelligence company focussed on the healthcare sector for CT scan identification and classification), Chief Administration Officer for the city of Jacksonville, FL (with a budget in excess of one billion dollars and over 5,000 employees), and Co-Founder and CEO of the Solantic Walk-In Urgent Care Centers. Ms. Bowling has sat on and chaired numerous boards across a dozen sectors, and has recently been Gubernatorial appointed to the board of the Florida State College in Jacksonville.

Q1 2017

During the quarter, the Company completed the issuance of senior secured convertible notes (the “Senior Secured Notes”) to raise USD \$1,500,000. This offering was announced and described in the Company’s news release of October 18, 2016.

It was a condition of the offering of Senior Secured Notes that not less than 80% of SDI’s outstanding unsecured debentures (the “Unsecured Debentures”) be exchanged for subordinate convertible secured debentures (the “Subordinate Secured Debentures”). Approximately 88% of the outstanding Unsecured Debentures were exchanged for Subordinate Secured Debentures. The issuances of Senior Secured Notes and Subordinate Secured Debentures were non-brokered transactions.

During the quarter, SDI issued 589,414 common shares at a price of \$0.0848 (CAD\$0.1142) per share to satisfy the payment of USD \$50,000 due on November 15, 2016. The shares are subject to a four-month hold period expiring on May 14, 2017. The issuance of shares to Northeast Industrial Partners is the second of four such issuances to occur over the period ending May 15, 2017, as described in the June 20, 2016 news release.

Northeast Industrial Partners is controlled by Bryan Ganz, who was appointed to the board of directors of SDI after the consulting agreement was entered into. As a condition of stock exchange approval, SDI was required to obtain disinterested shareholder approval of the share issuance reported in this news release. That approval was received on December 15, 2016 at the Annual General Meeting of shareholders.

The Company hired a new Director of Sales, Marketing and Training with over 24 years of extensive law enforcement experience. His duties included: SWAT/SRT, patrol, criminal investigations, and various joint federal task forces. He is an armorer for numerous weapon platforms. He has served as an instructor for the following: Taser, defensive tactics/officer survival, impact weapons, active shooter response, SWAT tactics, chemical munitions, handgun, submachine gun, shotgun, and patrol rifle. Additionally, he worked as an instructor training foreign law enforcement and Military personnel in ant-terrorism operations. He has also developed training programs for the US Military (Reserve, National Guard, and Coast Guard) , Federal Agencies, various local and state agencies, as well as private security.

During Q1, SDI received their Federal Firearms and Federal Explosives Licenses. The licensing allows the Company to house and travel with 40mm launchers and munitions for demonstrations globally. The licenses also allow the Company to manufacture, distribute and ship firearms, ammunition and ammunition components, as well as destructive devices. The newly acquired licenses will assist SDI in augmenting new lines of less lethal munitions and components in the coming quarters.

Over the last quarter, the Company signed five (5) new Master Distributors. Master Distributors purchase product from SDI at the lowest price but in exchange, commit to minimum annual purchases of \$100,000 annually. This is the first time SDI has signed Master Distributors. The company also signed two (2) new Dealers. Dealers purchase from SDI at slightly higher pricing than Master Distributors, however, Dealers have only a \$25,000 annual commitment.

The new Master Distributors include: FACTA Global, Surplus Ammo Arms, US Tactical Supply, Wolverine Supplies, and Ed's Public Safety. SDI's new Master Distributors and Dealers will increase the Company's presence and reach in the northeast, northwest, and southeast corridors in the US, as well as eastern and western Canada.

SDI also signed a consulting agreement with Proxima Consulting, a consulting firm based in Oman, that works with Ministries throughout the GCC (Gulf Coast Countries) countries. The GCC countries include: Oman, Kuwait, Saudi Arabia, United Arab Emirates, Qatar, and Bahrain. As a result of the Proxima Consulting agreement, SDI was able to exhibit at IDEX (the International Defense Exhibition & Conference) in Abu Dhabi on February 2017.

Subsequent to the quarter, the Company signed a multi-year OEM agreement with Mission Less Lethal (Mission), headquartered in Fort Wayne, IN. Under this agreement, SDI will be able to offer its customers a full line of .68 caliber chemical irritant projectiles and air-powered launchers produced by Mission Less Lethal. Mission Less Lethal is the world leader in the design, development, and manufacture of .68 caliber projectiles and launchers, currently in use by thousands of law enforcement agencies in the U.S. and around the world.

The .68 caliber launchers and projectiles are an important addition to SDI's line of less lethal munitions. Currently, SDI's flagship product line, the Blunt Impact Projectile (BIP) leads the 40mm (high-kinetic) less lethal segment in range, accuracy, and most importantly safety. Capable of delivering over 200 joules of kinetic energy the BIP is designed to stop an assailant with a single shot. Similarly, SDI's extensive range of 12 gauge munitions including bean bags, rubber finned rockets, rubber balls and door breaching rounds provide law enforcement with a wide array of less lethal tools. Producing between 110-150 joules of energy these products offer a complete solution set in the mid-to-high kinetic segment. The .68 caliber line of chemical irritant projectiles and launchers fills a critical gap in SDI's offering by servicing the low kinetic impact segment. At only 15 joules of energy these systems rely more on the dispersion of chemical irritants than on impact energy.

SDI has begun marketing their OEM .68 caliber projectiles and launchers under the Mini Ball™ brand with a full roll-out planned for Q2-2017. The Company's goal is to provide its dealers, distributors and law enforcement agencies with the widest possible array of less lethal options so that officers always have the correct tool for the job when required.

Q2 2017

During Q2, SDI received the majority of its Department of Transportation (DOT) approvals to ship 12 gauge chemical munitions, 37/40mm launchable rounds, as well as specified hand thrown smoke and gas.

During the quarter, the company made its fourth and final instalment share issuance to Northeast Industrial Partners under the consulting agreement announced on June 20, 2016. SDI issued 534,941 common shares at a price of \$0.0935 (CAD\$0.1275) per share to satisfy the payment of USD \$50,000 due on May 15, 2017. The shares are subject to a four-month hold period expiring on September 16, 2017.

SDI signed on two new dealers to distribute their lines of munitions. The two dealers are located in Texas and Michigan, two strategic States that the Company did not have presence.

On May 19, 2017 Public Works and Government Services Canada issued a Request for a Standing Offer (Solicitation #M0077-16J101/A) on behalf of the Royal Canadian Mounted Police (RCMP), for 40mm Blunt Impact Projectiles. SDI has submitted their bid for this standing offer in the anticipation of winning the 3 year tender (with two one year options totaling 5 years). The standing offer for the Company's calls for 150,000 rounds for years 1 to 3, and an additional 150,000 40mm Blunt Impact Projectiles for the 2 optional years.

Q3 2017

During the quarter, SDI agreed to extend the consulting agreement between the Company and Northeast Industrial Partners LLC ("Northeast") first announced on June 20, 2016. SDI and Northeast have agreed to extend the consulting agreement that will automatically renew each quarter until either party gives notice of cancellation. For its services and subject to stock exchange approval, Northeast will be issued SDI common shares for its services on August 15, 2017 and quarterly thereafter while the consulting agreement is in effect. Payments will be prorated if the consulting agreement is terminated during any quarterly period.

During Q3, SDI announced the signing of a multi-year agreement to provide its patented collapsible head blunt impact projectiles (BIPs) and collapsible head payload projectiles including OC (pepper spray), CS (tear gas), ML (marking liquid), MP (marking powder), MO (malodorant), IN (inert powder) and DNA (plant based DNA forensic marking rounds) to The Safariland Group (Safariland), headquartered in Jacksonville, FL.

SDI will supply BIPs and payload projectiles to Safariland for integration with Safariland's proprietary propulsion system. These new rounds will be marketed under the industry-leading Defense Technology brand name. The first shipment of rounds were made as of the date of the press release.

Management believes that the agreement with Safariland validates the more than five years of research and development that SDI has invested in the creation of the collapsible head 40mm round. Management further believes that by working in partnership with Safariland, together the companies can reach a far larger market for the BIP than SDI would be able to reach on its own.

The Safariland Group is a leading global provider of a broad range of safety and survivability products designed for the public safety, military, professional and outdoor markets. The Safariland Group offers a number of recognized brand names in these markets including Safariland[®], Med-Eng[®], ABA[®], Second Chance[®], VIEVU[®], Mustang Survival[®], Bianchi[®], Break Free[®], PROTECH[®] Tactical, Defense Technology[®], Hatch[®], Monadnock[®], Identicator[®] and NIK[®]. The Safariland Group's mission, "Together, We Save Lives", is inherent in the lifesaving and protective products it delivers. The Safariland Group is headquartered in Jacksonville, Florida. The Safariland Group is a trade name of Safariland, LLC.

During Q3, the Company appointed Don Levantin to the board of directors as an independent member.

Mr. Levantin is a senior executive with a proven record of positioning companies for growth, profitability and acquisition. He is currently the chief executive officer and a board member of Amphora Inc., the leading global software solution and service provider for energy and commodity trading, risk management, and logistics execution. With over 30 years experience, he is an accomplished strategist in conceptualizing, building and operating corporations on a global level in the commodity sector. Prior to leading Amphora, he was a co-founder of Commoditrack, a real-time mark-to-market and risk management platform for commodities, which was acquired by the Intercontinental Exchange (ICE) and later by Sungard Financial Systems. Prior to building and leading companies in the software sector, Mr. Levantin was a commodity trader with Philipp Brothers Commodity Corp. and Phibro Energy. He holds a BS in business and economics from Lehigh University.

Effective October 1, 2017 the Company appointed Paul Jensen as the company's new President and Chief Operating Officer.

Mr. Jensen is a seasoned, global executive with direct experience in developing high performance teams, managing complex projects, and building a global network of trusted advisers and business partners. His experiences have been focused on plastics contract manufacturing, the defence sector, technology licensing and managing intricate, multinational programs. Mr. Jensen has extensive business experience in the Middle East in both the public and private sectors of defence.

Mr. Jensen's tenures include: co-founding Halo Maritime Defense Systems, an award-winning technology company offering the world's most advanced marine automated security system with 13 patents and over \$300-million in naval and defence opportunities; Nypro Inc., a billion-dollar plastics injection molding contract manufacturer, where Mr. Jensen held senior management positions for nearly two decades (directed a business unit with \$150-million in sales); and positions with Kodak and GE, as well as the U.S. Army (nine years of active duty serving in command positions with the 82nd Airborne Division and XVIIIth Airborne Corps, leading up to Operation Urgent Fury, and on the staff and faculty of the U.S. Military Academy as an assistant professor of chemistry. Mr. Jensen was twice awarded the Meritorious Service Medal.

A distinguished graduate of the U.S. Military Academy at West Point (1977), Mr. Jensen received his MS in chemistry from MIT (1979 — Fannie and John Hertz Fellow) and holds an MBA with honours from Golden Gate University (1982). He is a graduate of the senior executive program at the University of Tennessee and has served on the adjunct faculty at the Fuqua School of Business, Duke University.

During the quarter, the Royal Canadian Mounted Police (the "RCMP") awarded its request for standing offer tender for 150,000 40mm less-lethal rounds to SDI's North American licensee partner, for the Company's collapsible-head technology under the brand Defense Technology - 40mm BIP Collapsible Gel Round.

The tender is for 150,000 rounds over a three-year period with an option for an additional 150,000 rounds over an additional two-year period. SDI has supplied rounds to various RCMP departments over the last few years. The Company began supplying the first rounds under its agreement with Safariland in August 2017.

The Company continues to look to partner with and license its intellectual property to large global technology companies that have established defense manufacturing capabilities and in-place distribution networks allowing SDI to reduce its retail effort that currently focuses on direct sales to local police departments and correctional facilities. SDI is in talks with groups in the Middle East as well as the

Far East for such partnerships.

In the coming quarter, direct sales efforts for the Company will be moving to an e-commerce platform that will garner increased margins for product sales, and streamline efforts in serving customers. The Company is also looking to develop alternative 40mm launcher solutions to meet the needs of markets that are not serviced within the law enforcement and home defense sectors.

Subsequent to the quarter, Bryan Ganz was appointed executive chairman of the company from his current position as President.

Keith Morrison has resigned from the Company's board of directors as Chairman, and Karim Kanji has also resigned from the board of directors.

Subsequent to the quarter SDI has closed its warehouse in Perry, FL where it housed its 12g and Mini Ball line of products. This move is to streamline operations and focus on the Company's 40mm BIP line of products for e-commerce and licensing sales, as well as international licensing opportunities.

Operations

The Company has restructured to reduce its overhead and operating expenses with its new e-commerce and licensing model.

Website Update

SDI continues to update its website to manage its digital presence, as well as maintain its top positioning in search engines for the less-lethal industry. The e-commerce initiative will roll-out in the current quarter for its line of less-lethal products.

Products

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

The Company has three product lines:

- a) The Company has developed the BIP, a blunt impact projectile which uses pain compliance to control a target. The Company has developed eight versions of the standard BIP, seven of which contain a payload and one of which is a cheaper cost, training round. A payload is an internal medium within the BIP, holding a liquid or powder substance.
- b) The Company offers a line of 12 gauge less lethal projectiles and irritants for law enforcement and correctional services agencies. The projectiles come in impact form, rubber balls, chemical irritants, flash bangs, and door breaching pellets.
- c) The Company offers a full line of .68 caliber impact and chemical irritant projectiles for use by correctional services and law enforcement agencies. The platform for these projectiles is an air gun system that includes either a magazine or hopper to house the projectiles for ease of use and rapid deployment.
- d) The Company has undertaken substantial work to develop the WEP, a wireless electric projective which releases an electrical pulse that induces a muscle spasm and causes the target to fall to the ground helpless. This product is not fully complete at this time.

Intellectual Property

Five patent applications, four non-provisional and one provisional, have been filed by the Company with the U.S. Patent Office. The Patents have been granted on the four non-provisional patents.

Non-Provisional (granted patents):

(a) Less-lethal Projectile: This issued patent relates to the Company's distinctive collapsible ammunition head technology that absorbs kinetic energy of the projectile upon impact. The Corporation's collapsible head is used in both the BIP and the WEP.

(b) Electronic Circuitry for Incapacitating a Living Target: This issued patent relates to the electronic circuitry incapacitation system which forms part of the WEP. The patent describes an electronic circuit which provides an electrical incapacitation current to a living target.

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

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

Provisional Patent:

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

The Company's policy has been to write off cost incurred in connection with non-provisional and provisional patent costs as they are incurred as a recoverability of such expenditure is uncertain.

General

- SDI's offices are located at 107 Audubon Road, Bldg 2, Suite 201 Wakefield, MA 01880
- SDI's website is www.securitydii.com.

Going Concern

The Company has incurred a cumulative loss of \$29,659,794 from inception to August 31, 2017. The Company has funded operations through the issuance of capital stock and convertible debentures. The company has started to generate revenue from operations. However, it still expects to incur significant expenses 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 its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In addition to raising funds in the prior years, the Company raised \$649,750 by issuance of 2,165,834 common shares during the year ended November 30, 2012. On August 15, 2013, the Company filed an amended and restated final prospectus (the "Prospectus") in Canada, in the provinces of Alberta, British Columbia and Ontario for listing its shares in these provinces in Canada. On August 27, 2013, the Company completed an initial public offering to raise gross proceeds of CAD \$3,993,980 (US \$3,794,280) through the issuance of 9,984,950 Common Shares at a price of CAD \$0.40 (US \$0.38) per Common Share (the "Issue Price"). During the year ended November 30, 2014, the Company issued \$1,398,592 (CAD \$1,549,000) face value 12% convertible debentures with a term to August 6, 2017 (the "Maturity Date") and raised net \$1,241,299. In 2015, the Company raised \$2,500,000 through the issuance of 7,575,757 common shares and also issued 105,600 common shares on exercise of warrants for \$16,775 and 35,000 common shares on exercise of options for \$6,995. During the quarter ended February 28, 2017, the Company issued \$1,500,000 face value 10% convertible debentures with a term to June 6, 2019 (the "Maturity Date"). The Company's common shares commenced trading on the TSX Venture Exchange ("TSX") under the symbol "SDZ".

Significant Quarterly Information

The following represents selected information of the Company for the most recently completed financial quarter ended August 31, 2017

	Three- month period August 31, 2017 <u>(unaudited)</u>	Three- month period August 31, 2016 <u>(unaudited)</u>
Net loss for the three- month period	500,715	491,928
Basic and diluted loss per share	(0.01)	(0.01)
	As at <u>August 31,</u> 2017	As at <u>November</u> <u>30, 2016</u>
Total assets	541,784	370,090
Total liabilities	2,525,321	1,363,682
Cash dividends per share	-	-

Results of Operations

SDI was incorporated on March 1, 2005 and for the period from inception to August 31, 2017 has not realized significant revenues. The company has started to generate revenue from operations. However, it still expects to incur expenses before becoming profitable.

Financial highlights (unaudited) for the three- month and nine- month period ending August 31, 2017 with comparatives are as follows:

Operating Results	For the three months ended August 31, 2017	For the three months ended August 31, 2016
	\$	\$
Sales	70,353	30,627
Cost of sales	(46,705)	(18,684)
Gross Profit	23,648	11,943
Operating Expenses	(530,768)	(445,546)
Change in fair value of derivative liabilities	157,034	-
Other expenses -Interest	(150,629)	(58,325)
Net Loss for Period	(500,715)	(491,928)
(Loss) per Share	(\$0.01)	(\$0.01)

Operating Results	For the nine months ended August 31, 2017	For the nine months ended August 31, 2016
	\$	\$
Sales	209,958	82,849
Cost of sales	(121,989)	(51,021)
Gross Profit	87,969	31,828
Operating Expenses	(1,659,795)	(1,201,441)
Change in fair value of derivative liabilities	664,413	-
Other expenses -Interest	(453,768)	(174,341)
Net Loss for Period	(1,361,181)	(1,343,954)
(Loss) per Share	(\$0.02)	(\$0.02)

The Company's selected information for the nine- month period ended August 31, 2017 (unaudited) and November 30, 2016 (audited) are as follows:

	August 31, 2017	November 30, 2016
Total current assets	511,971	282,720
Total assets	541,784	370,090
Total current liabilities	478,877	1,363,682
Total liabilities	2,525,321	1,363,682
Stockholders' deficiency	(1,983,537)	(993,592)

Net loss for the three months ended August 31, 2017 was \$500,715 (\$0.01 per share) as compared to net loss of \$491,928 (\$0.01 per share) for the three- month period ended August 31, 2016. The major components of the change relate to:

During the quarter ended August 31, 2017, the company recorded stock based compensation expense for \$45,162 (prior period \$2,574).

The Company recorded gain in change in fair value of derivative liabilities for \$157,034 in this quarter of 2017 as compared to \$nil for 2016.

The Company recorded foreign currency translation loss for \$79,535 in this quarter of 2017 as compared to \$nil for 2016.

Effective May 1, 2017, the Company extended a consulting agreement with Northeast Industrial Partners, LLC ("NEIP"), a Corporation in which Bryan Ganz, a director has an ownership interest. For services rendered by NEIP during the said extension, the Company will pay NEIP \$62,500 within 15 days following every consecutive three month period during the extension.

Cash Flows

Net cash used in operations for the nine months ended August 31, 2017, was \$1,380,962 as compared to \$1,347,521 used for the nine months ended August 31, 2016. The major components of change relate to:

The Company's Inventory increased by \$202,980 in 2017 as compared to a decrease of \$27,335 in 2016. This increase in inventory represents the investment in inventory available for sale in next period.

Net cash flow from investing activities was \$(21,703) during the nine-month period ended August 31, 2017 as compared to \$nil for the prior period ended August 31, 2016. The Company acquired property and equipment for \$21,703 during the nine-month period ended August 31, 2017.

Net Cash flow from financing activities was \$1,437,716 in 2017 as compared to \$nil in 2016. This increase in 2017 was primarily the net cash from convertible debentures raised during the period for \$1,433,716.

There was an overall increase in cash of \$62,068 in 2017 as compared to a decrease in cash of \$1,362,797 during 2016.

Liquidity and Capital Resources

As at August 31, 2017, cash and cash equivalent was \$254,894, as compared to \$192,826 at November 30, 2016. This change is mainly attributable to the combination of factors mentioned above under heading "Cash Flows".

At August 31, 2017, the Company had a working capital of \$33,094. The major components are as follows; cash and cash equivalent \$254,894; prepaid expenses and other receivables \$19,232; Inventory for \$210,303; accounts receivable for \$27,542; Unsecured convertible debentures for \$76,125, promissory note payable for \$70,640 and accounts payable and accrued liabilities of \$332,112.

At November 30, 2016, the Company had a working capital deficit of (\$1,080,962). The major components are as follows; cash and cash equivalent \$192,826; prepaid expenses and other receivables \$50,037; accounts receivable for \$32,534; Inventory for \$7,323; Convertible debentures for \$1,117,771 and accounts payable and accrued liabilities of \$245,911.

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

Off-balance sheet arrangements

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

Transactions with related parties

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

Nine months ended May 31, 2017

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

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

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

Nine months ended August 31, 2016

The directors were compensated as per their consulting agreements with the Company. The Company expensed a total of \$208,400 as management fees to two of its directors in their role as officers in accordance with their consulting contracts, which included \$57,600 paid on full and final settlement to one director in his role as CEO on his resignation and termination effective July 15, 2016, and also expensed a total of \$5,900 as automobile allowance. In addition, the Company expensed \$42,200 as a consulting fee to an independent director for services provided.

The Company expensed \$16,400 for services provided by the CFO of the Company and \$154,900 for services provided by a Corporation in which the Chief Operating Officer (who was later elected interim CEO and President effective July 16, 2016) has an ownership interest, in accordance with the consulting contract.

Effective July 21, 2016, Bryan Ganz was elected as a director of the Company. Prior to his appointment, effective May 1, 2016, the Company executed a one-year consulting agreement with a Corporation in which the said director has an ownership interest. The said Corporation was paid cash of \$25,000 in May, 2016 and \$25,000 in June, 2016.

Compensation of Directors for nine months period ended August 31, 2017 and August 31, 2016.

Nine months ended August 31, 2017:

	Paid/Payable in Cash	Stock Awards	Awards of Options or Warrants (2)
<u>Non-Independent Directors</u>			
Dean Thrasher (1)	\$ 110,800	--	44,624
Bryan Ganz (3)	\$	150,000	
<u>Independent Directors</u>			
Keith Morrison *	\$ -	-	43,578
Karim Kanji **	\$ -	-	37,170
Don Levantin	\$ -	-	10,633
Karen Bowling	\$ -	-	33,965

* Resigned from the Company effective September 7, 2017 ** Resigned from the Company effective September 7, 2017

- (1) This includes payment to Level 4 Capital Corp., a company in which Mr. Thrasher owns a 50% interest
- (2) The fair value of options or warrants granted computed in accordance with ASC 718 on the date of grant.
- (3) Issuance of common shares to satisfy the payment of \$150,000 issued to NEIP, a Corporation in which Mr. Ganz has an ownership interest.

Nine months ended August 31, 2016:

	Paid/Payable in Cash	Stock Awards	Awards of Options or Warrants (2)
<u>Non-Independent Directors</u>			
Gregory Sullivan (1)	\$ 151,250	--	-
Allen Ezer	\$ 63,050	--	-
Dean Thrasher (3)	\$ 154,900	--	-
Bryan Ganz (2)	\$ 50,000	--	-
<u>Independent Directors</u>			
Keith Morrison	\$ -	-	-
David Goodbrand	\$ -	-	-
Karim Kanji	\$ 42,200	-	-

- (1) Mr. Sullivan resigned as the CEO and director of the Company effective July 15, 2016. His compensation includes \$57,600 paid to him on full and final settlement on his resignation and termination.
- (2) Effective July 21, 2016, Bryan Ganz was elected as a director of the Company. Prior to his appointment, effective May 1, 2016, the Company executed a one-year consulting agreement with a Corporation in which the said director has an ownership interest. The said Corporation was paid cash of \$25,000 in May, 2016 and \$25,000 in June, 2016.
- (3) Mr. Thrasher is contracted through Level 4 Capital Corp., a company in which Mr. Thrasher owns a 50% interest. Mr. Thrasher was appointed interim CEO and President effective July 16, 2016.

COMMITMENTS

a) Consulting agreements:

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

The Company executed an employment agreement with the CEO of the Company which term extends to June 30, 2018. The CEO is to be paid an annual salary of \$150,000 (CAD \$200,000) plus benefits. In addition, the Company will pay a performance bonus of 3% of net profits before taxes and granted 1,150,000 stock options with a five- year expiry term. The Company must pay 4 months of pay for termination without cause. Effective August, 2017, the Company started making payments to a corporation owned and controlled by the CEO.

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

Effective January 1, 2017, the Company executed a one-year service agreement with NEIP a Corporation in which Bryan Ganz, Director has an ownership interest to pay compensation of \$7,500 per month. The said Corporation will assist the Company with administrative services which will include accounting, production, inventory management and human resources. The agreement is for a period of one year and can be terminated by either party by giving 60 days' notice in writing.

Effective April 2014, SDI executed an agreement with a non-related consultant to set up its social media sites and optimization of search engines for the Company, at a start- up fee for \$2,250 (CAD\$3,000) (Phase 1) and payment of \$2,250 (CAD\$3,000) per month and issued 150,000 stock options at \$0.32 (CAD\$0.38) when Phase 2 of the project was implemented. Either party can terminate the agreement by giving 30 days' notice.

b) The Company has commitments for leasing office premises in Oakville, Ontario, Canada to April 30, 2018 at a monthly rent of \$4,800 (CAD \$6,399).

c) Effective January 1, 2017, the Company executed a commercial lease for leasing warehouse space in Perry, Florida. The lease is for an initial three-year term at a monthly lease payment of \$3,250. The said lease can be renewed for an additional three-year term with a 10% increase. Effective August 31, 2017, both parties terminated this lease.

EXCLUSIVE SUPPLY AGREEMENT

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. 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.

SUBSEQUENT EVENTS

In September 2017, the Company made the first share issuance to NEIP under the renewed consulting agreement effective May 1, 2017. The Company issued 498,423 common shares at a price of \$0.125 per share to satisfy the payment of \$62,500 due for the period May 1, 2017 to July 31, 2017, on August 15, 2017. The shares are subject to a four-month hold period. Northeast Industrial Partners is controlled by Bryan Ganz, who was appointed to the board of directors of SDI after the consulting agreement was entered.

Effective September 7, 2017, Keith Morrison and Karim Kanji resigned as members of the Board of directors.

Effective October 1, 2017, the Company appointed Paul Jensen as President and COO of the Company at a compensation of \$200,000 per annum. From October 1, 2017 through June 30, 2018, the salary is payable entirely by issue of Company stock, to be issued 15 days after the end of each calendar quarter. Commencing July 1, 2018, the Company will pay \$10,000 per month in cash and the balance in Company stock. At such time the Company can pay the entire salary in cash and be cash positive, the entire monthly salary will be paid in cash.

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

Revenue Recognition

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

Outstanding share data

As of October 15, 2017, the Company had 57,230,522 issued and outstanding shares of common stock.

Risk Factors

Senior and Subordinate Secured Convertible Debentures

On December 7, 2016, the Company entered a Securities Purchase Agreement with several accredited investors to sell \$1,500,000 of 10% senior secured convertible notes, convertible into shares of the Company's common stock, in a private placement pursuant to Regulation D under the Securities Act of 1933. Concurrent with the sale of the Secured Notes, CAD\$1,364,000 of the Company's outstanding Unsecured Debentures, were exchanged for an equal principal amount of the Subordinate Secured Debentures and an additional CAD\$37,000 of Subordinated Secured Debentures were issued in satisfaction of a portion of the accrued interest on the Unsecured Debentures. Both senior and subordinated secured debentures mature on June 6, 2019 unless converted or extended and are fully secured against the undertaking, property and assets of the Company including its patents. Inability to repay the secured debt on maturity, if the debt is neither converted nor extended, will result in the financial condition of the Company to be materially adversely affected.

Additional Financing

The Corporation 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 Corporation looking to obtain such additional financing could result in delay or indefinite postponement of the Corporation's deployment of its products, resulting in the possible dilution. Any such financing will dilute the ownership interest of the Corporation'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 Corporation'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 Corporation can generate substantial revenue growth, or that any revenue growth that is achieved can be sustained. Revenue growth that the Corporation has achieved or may achieve may not be indicative of future operating results. In addition, the Corporation 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 Corporation's business, operating results and financial condition will be materially adversely affected.

Dependence on Management and Key Personnel

The Corporation is dependent on certain members of its management. The loss of the services of one or more of them could adversely affect the Corporation. The Corporation'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 Corporation will be able to continue to recruit and retain such personnel. The inability of the Corporation to recruit and retain such personnel would adversely affect the Corporation's operations and product development.

Dependence on Key Suppliers

The Corporation 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 Corporation 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 Corporation's business, operating results and financial conditions.

The Corporation 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 Corporation. A product recall could have a material adverse effect on the business or financial condition of the Corporation.

Strategic Alliances

The Corporation 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 Corporation must either acquire or develop an internal marketing and sales force with technical expertise and with supporting distribution capabilities or arrange for third parties to perform these services. In order to market any of its products, the Corporation must either acquire or develop a sales and distribution infrastructure. The acquisition or development of a sales and distribution infrastructure would require substantial resources, which may divert the attention of its Management and key personnel, and defer its product development and deployment efforts. To the extent that the Corporation 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 Corporation 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 Corporation'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 Corporation'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 Corporation 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 Corporation's products or which render the products currently sold by the Corporation 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 Corporation 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 Corporation 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 Corporation's industry is highly competitive and composed of many domestic and foreign companies. The Corporation 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 Corporation to changes in end-user requirements and devote greater resources to the enhancement, promotion and sale of their products.

Regulation

The Corporation 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 Corporation 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 Corporation's results of operations, business, prospects and financial condition. The Corporation's continued compliance with present and changing future laws could restrict the Corporation's ability to modify or expand its facilities or continue production and could require the Corporation to acquire costly equipment or to incur other significant expense.

Intellectual Property

The Corporation'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 Corporation 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 Corporation 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 Corporation's competitors will not independently develop technologies that are substantially equivalent or superior to the Corporation's technology.

To protect the Corporation'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 Corporation 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 Corporation not infringing intellectual property rights of others. A number of the Corporation'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 Corporation. Some of these patents may grant very broad protection to the owners of the patents. The Corporation has not undertaken a review to determine whether any existing third party patents or the issuance of any third-party patents would require the Corporation to alter its technology, obtain licenses or cease certain activities. The Corporation 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 Corporation 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 Corporation's proprietary rights. Some of its competitors have, or are affiliated with companies having, substantially greater resources than the Corporation 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 Corporation. 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 Corporation to significant liabilities and equitable remedies, including injunctions, require the Corporation to enter into costly royalty or licensing agreements and require the Corporation to modify or stop using infringing technology.

The Corporation 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 Corporation or to regulation of certain of its product components. The Corporation 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 Corporation'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 Corporation'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 Corporation, 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 Corporation'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 Corporation's customer base. As a result, these customers may need to reduce their purchases of the Corporation's products, or there may be greater difficulty in receiving payment for the products that these customers purchase from the Corporation. 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 Corporation'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 Corporation 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 Corporation may elect not to insure against such liabilities due to high premium costs or other reasons, in which event the Corporation could incur significant costs that could have a materially adverse effect upon its financial position.

Conflicts of Interest

Certain directors and officers of the Corporation 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 Corporation 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 Corporation. The directors and officers of the Corporation have either other full-time employment or other business or time restrictions placed on them and accordingly, the Corporation will not be the only business enterprise of these directors and officers.

Dividend Policy

The Corporation has not paid dividends in the past and has no plans to pay dividends for the foreseeable future. The future dividend policy of the Corporation 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 Corporation's financial condition or results of operations as reflected in its quarterly filings. Other factors unrelated to the performance of the Corporation 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 Corporation may be limited if investment banks with research capabilities do not follow the Corporation's securities; lessening in trading volume and general market interest in the Corporation's securities may affect a subscriber's ability to trade significant numbers of Common Shares, the size of the Corporation's public float may limit the ability of some institutions to invest in the Corporation's securities; a substantial decline in the price of the Common Shares that persists for a significant period of time could cause the Corporation's securities to be delisted from the exchange, further reducing market liquidity. If an active market for the Common Shares does not continue, the liquidity of a subscriber's investment may be limited and the price of the Common Shares may decline. If such a market does not develop, subscribers may lose their entire investment in the Common Shares.

Political Regulatory Risks

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

Dividends

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

Legal proceedings

None

Item 4. Controls and Procedures.

(a) SDI maintains a system of controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended ("1934 Act"), is recorded, processed, summarized and reported, within time periods specified in the SEC's rules and forms and to ensure that information required to be disclosed by SDI in the reports that it files or submits under the 1934 Act, is accumulated and communicated to SDI's management, including its Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As of August 31, 2017, SDI's Principal Executive Officer and Principal Financial Officer evaluated the effectiveness of the design and operation of SDI's disclosure controls and procedures. Based on that evaluation, SDI's Principal Executive Officer and Principal Financial Officer concluded that SDI's disclosure controls and procedures were not effective due to the following material weakness:

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

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

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

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

(b) *Changes in Internal Controls.* There were no changes in SDI's internal control over financial reporting during the quarter ended August 31, 2017 that materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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

The Company made share issuances to NEIP under the consulting agreement announced on June 20, 2016. In January 2017, the Company issued 589,414 common shares at a price of \$0.1142 per share to satisfy the payment of USD \$50,000 due on November 15, 2016. In March 2017, the Company made the third share issuance and issued 503,251 common shares at a price of \$0.0994 per share to satisfy the payment of USD \$50,000 due on February 15, 2017. In May 2017, the Company made the fourth and final share issuance and issued 534,941 common shares at a price of \$0.0935 per share to satisfy the payment of USD \$50,000 due on May 15, 2017.

In September 2017, the Company made the first share issuance to NEIP under the renewed consulting agreement effective May 1, 2017. The Company issued 498,423 common shares at a price of \$0.125 per share to satisfy the payment of \$62,500 due for the period May 1, 2017 to July 31, 2017, on August 15, 2017. The shares are subject to a four-month hold period.

Item 6. Exhibits

Exhibits

31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Dean Thrasher.
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Rakesh Malhotra.
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Dean Thrasher and Rakesh Malhotra.

SIGNATURES

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

SECURITY DEVICES INTERNATIONAL, INC.

Date: October 23, 2017

By: /s/ Dean Thrasher
Dean Thrasher, Principal Executive
Officer

Date: October 23, 2017

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

CERTIFICATIONS

I, Dean Thrasher, certify that;

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

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

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

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

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

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

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

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

October 23, 2017

/s/ Dean Thrasher

Dean Thrasher,
Principal Executive Officer

CERTIFICATIONS

I, Rakesh Malhotra, certify that;

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

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

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

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

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

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

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

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

October 23, 2017

/s/ Rakesh Malhotra
Rakesh Malhotra,
Principal Financial Officer

In connection with the quarterly report of Security Devices International, Inc., (the “Company”) on Form 10-Q for the quarter ended August 31, 2017 as filed with the Securities and Exchange Commission (the “Report”) Dean Thrasher, the Principal Executive Officer of the Company and Rakesh Malhotra, the Principal Financial Officer of the Company, certify pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

October 23, 2017

/s/ Dean Thrasher
Dean Thrasher, Principal Executive Officer

October 23, 2017

/s/ Rakesh Malhotra
Rakesh Malhotra, Principal Financial Officer
