UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **February 28, 2018**

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

For the transition period from _______ to _______

Commission File Number: **333-132456**

SECURITY DEVICES INTERNATIONAL, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**71-1050654**
(State or other jurisdiction of incorporation or organization)	*(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 [X] 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 [X]   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 [X]

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ]   No [X]

As of April 16, 2018, the Company had 93,861,054 issued and outstanding shares of common stock.

SECURITY DEVICES INTERNATIONAL, INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 2018

(Amounts expressed in US Dollars)
(Unaudited)

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SECURITY DEVICES INTERNATIONAL, INC.
Condensed Interim Consolidated Balance Sheets
As at February 28, 2018 and November 30, 2017
(Amounts expressed in US Dollars)
(Unaudited)

	February 28, 2018 $	November 30, 2017 $
ASSETS		
CURRENT		
Cash and cash equivalent	1,437,587	1,965,043
Accounts receivable	15,889	36,412
Inventory (Note 10)	190,541	157,303
Prepaid expenses and other receivables	156,906	6,648
Total Current Assets	1,800,923	2,165,406
Property and equipment (Note 3)	26,053	26,951
TOTAL ASSETS	1,826,976	2,192,357
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	259,985	393,341
Unsecured convertible debentures (Note 9)	-	40,357
Derivative Liabilities (Note 9)	541,692	539,860
Total Current Liabilities	801,677	973,558
Long term secured convertible debentures (Note 9)	925,728	892,176
Total Liabilities	1,727,405	1,865,734
Going Concern (Note 2)		
Related Party Transactions (Note 6)		
Commitments (Note 7)		
Subsequent Events (Note 13)		
STOCKHOLDERS' EQUITY		
Capital Stock (Note 4)		
Preferred stock, $0.001 par value, 5,000,000 shares authorized, Nil issued and outstanding (November 30, 2017 - nil).		
Common stock, $0.001 par value 200,000,000 shares authorized (2017: 200,000,000), 93,014,134 issued and outstanding (November 30, 2017: 93,014,134)	93,014	93,014
Additional Paid-In Capital	31,381,831	31,365,097
Shares to be issued	112,500	-
Deficiency	(31,454,576)	(31,098,864)
Accumulated Other Comprehensive Loss	(33,198)	(32,624)
Total Stockholders' Equity	99,571	326,623
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	1,826,976	2,192,357

See accompanying notes to the condensed interim consolidated financial statements.

SECURITY DEVICES INTERNATIONAL, INC.
Condensed Interim Consolidated Statements of Operations and Comprehensive loss
(Amounts expressed in US Dollars)
(Unaudited)

	For the Three- month period ended February 28, 2018	For the Three- month period ended February 28, 2017 (Restated) (See Note12)
	$	$
SALES	28,116	42,433
COST OF SALES	(20,741)	(23,111)
GROSS PROFIT	7,375	19,322
EXPENSES:		
Depreciation (Note 3)	3,353	11,972
Foreign currency translation loss (Note 9)	8,027	13,822
Selling, general and administration	290,443	479,160
TOTAL OPERATING EXPENSES	301,823	504,954
LOSS FROM OPERATIONS	(294,448)	(485,632)
Accretion (Note 9)	(28,748)	(68,662)
Change in fair value of derivative liabilities (Note 9)	1,391	571,648
Other expense-Interest (Note 9)	(33,907)	(157,322)
LOSS BEFORE INCOME TAXES	(355,712)	(139,968)
Income taxes	-	-
NET LOSS	(355,712)	(139,968)
Foreign exchange translation adjustment for the period	(574)	22,153
COMPREHENSIVE LOSS	(356,286)	(117,815)
Loss per share – basic and diluted	(0.004)	(0.002)
Weighted average common shares outstanding	93,014,134	55,412,298

See accompanying notes to the condensed interim consolidated financial statements.

SECURITY DEVICES INTERNATIONAL, INC.
Condensed Interim Consolidated Statements of Cash Flows
For the Three Months Ended February 28, 2018 and 2017
(Amounts expressed in US Dollars)
(Unaudited)

	For the three months ended February 28, 2018	For the three months ended February 28, 2017 (Restated) (See Note12)
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	(355,712)	(139,968)
Items not requiring an outlay of cash:		
Value of issue of options (included in selling, general and administration expenses)	16,734	-
Amortization of deferred financing costs	-	45,281
Accretion	28,748	68,662
Foreign currency translation loss	8,027	13,822
Accrued interest converted to convertible debentures	-	26,809
Change in fair value of derivative liabilities	(1,391)	(571,648)
Issue of common shares for services	-	50,000
Depreciation	3,353	11,972
Changes in non-cash working capital:		
Accounts receivable	19,136	25,250
Prepaid expenses and other receivables	(151,753)	(23,963)
Inventory	(33,238)	(37,693)
Accounts payable and accrued liabilities	(7,228)	53,825
NET CASH USED IN OPERATING ACTIVITIES	(473,324)	(477,651)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,456)	(21,703)
NET CASH USED IN INVESTING ACTIVITIES	(2,456)	(21,703)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from secured convertible debentures	-	1,433,716
Repayment of unsecured convertible debentures	(40,357)	-
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	(40,357)	1,433,716
Effects of foreign currency exchange rate changes	(11,319)	22,712
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS FOR THE PERIOD	(527,456)	957,074
Cash and cash equivalents, beginning of period	1,965,043	192,826
CASH AND CASH EQUIVALENTS, END OF PERIOD	1,437,587	1,149,900
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS:		
INCOME TAXES PAID	-	-
INTEREST PAID	2,574	35,307

See accompanying notes to the condensed interim consolidated financial statements.

SECURITY DEVICES INTERNATIONAL, INC.
Condensed Interim Consolidated Statement of Changes in Stockholders' Equity
For the three-month period ended February 28, 2018
(Amounts expressed in US Dollars)
(Unaudited)

	Number of Common Shares #	Common Shares amount $	Additional Paid-in Capital $	Shares To be Issued $	Accumulated Deficit $	Accumulated Other Comprehensive Loss $	Total $
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
Net loss for the period	-	-	-		(139,968)	-	(139,968)
Foreign currency translation	-	-	-		-	22,153	22,153
Balance as of February 28, 2017 (Restated-Note 12)	**55,693,907**	**55,694**	**27,356,685**	**-**	**(28,438,581)**	**(35,205)**	**(1,061,407)**
Balance as of November 30, 2017	93,014,134	93,014	31,365,097	-	(31,098,864)	(32,624)	326,623
Stock based compensation	-	-	16,734	-	-	-	16,734
Shares to be issued				112,500	-	-	112,500
Net loss for the period	-	-	-	-	(355,712)	-	(355,712)
Foreign currency translation	-	-	-	-	-	(574)	(574)
Balance as of February 28, 2018	**93,014,134**	**93,014**	**31,381,831**	**112,500**	**(31,454,576)**	**(33,198)**	**99,571**

See accompanying notes to the condensed interim consolidated financial statements.

1. BASIS OF PRESENTATION

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

The condensed unaudited interim consolidated financial statements should be read in conjunction with the financial statements and notes thereto together with management's discussion and analysis of financial condition and results of operations contained in Security Devices International Inc.'s ("SDI" or the "Company") annual report on Form 10-K for the year ended November 30, 2017. In the opinion of management, the accompanying condensed 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 February 28, 2018 and November 30, 2017, the results of its operations for the three-month periods ended February 28, 2018 and February 28, 2017, and its cash flows for the three-month periods ended February 28, 2018 and February 28, 2017. The results of operations for the three-month period ended February 28, 2018 are not necessarily indicative of results to be expected for the full year.

The Company was incorporated under the laws of the state of Delaware on March 1, 2005. On February 3, 2014 the Company incorporated a wholly owned subsidiary in Canada, Security Devices International Canada Corp. The condensed unaudited interim consolidated financial statements for the period ended February 28, 2018 include the accounts of Security Devices International, Inc., and its subsidiary Security Devices International Canada Corp. All material inter-company accounts and transactions have been eliminated.

2. NATURE OF OPERATIONS AND GOING CONCERN

The Company is a less-lethal defense technology company, specializing in the innovative next generation solutions for security situations that do not require the use of lethal force. SDI has implemented manufacturing partnerships to assist in the deployment of their patented and patent pending family of 40mm 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 condensed unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year.

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

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

The Company has incurred a cumulative loss of $31,454,576 from inception to February 28, 2018. The Company has funded operations through the issuance of capital stock, warrants and convertible debentures. The Company has started to generate revenue from operations. However, it still expects to incur significant losses before becoming profitable. The Company's future success is dependent upon its ability to raise sufficient capital or generate adequate revenue, to cover its ongoing operating expenses, and also to continue to develop and be able to profitably market its products. There can be no assurance that such financing will be available at all or on favorable terms. These factors raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty; such adjustments could be material.

(Amounts expressed in US Dollars)

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
Furniture and Fixtures	30%	declining balance method
Leasehold Improvements		straight line over period of lease
Moulds	20%	straight line over 5 years

	February 28, 2018		November 30, 2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	$	$	$	$
Computer equipment	56,152	41,205	53,696	39,971
Furniture and fixtures	20,998	18,044	20,998	17,805
Leasehold Improvements	26,471	26,471	26,471	26,471
Moulds	209,515	201,363	209,515	199,482
	313,136	287,083	310,680	283,729
Net carrying amount		$ 26,053		$ 26,951
Depreciation expense for three- month period		$ 3,353(February 28, 2018)		11,972(February 28, 2017)

4. CAPITAL STOCK

a) Authorized

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

And

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

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

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

b) Issued

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

4. CAPITAL STOCK-Cont'd

c) Changes to Issued Share Capital

Year ended November 30, 2017

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

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

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

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

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

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

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

Three- months ended February 28, 2018

Shares to be issued

a) Under the consulting agreement announced on June 16, 2017, the Company is obligated to issue 507,550 common shares to NEIP at a price of $0.1231 per share to satisfy the payment of $62,500 due in December 2017 (also see Note 13).
b) Under the employment agreement the Company is obligated to issue 339,370 common shares to Paul Jensen at a price of $0.1473 per share to satisfy the payment of $50,000, payable for the months of October to December, 2017 (also see Note 13).

(Amounts expressed in US Dollars)

5. STOCK BASED COMPENSATION AND WARRANTS

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

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

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

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

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

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

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

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

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

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

<u>Year ended November 30, 2017</u>

<u>Warrants</u>

On November 28, 2017, the Company closed the sale of 35,783,612 units on a private placement basis for gross proceeds of $3,793,063. Each unit consists of one common share of Company stock and one-half of a warrant. The Company issued 35,783,612 common shares and 17,891,806 warrants. Each whole warrant is exercisable for one common share of the Company stock on or before November 28, 2022 at an exercise price of $0.18. In addition to cash compensation, the Agent received 572,354 agent warrants. Each agent warrant is exercisable for one common share of the Company stock on or before November 28, 2022 at an exercise price of $0.15. The fair value of these Agent warrants was estimated at $78,332 using the Binomial option pricing model and reflected in additional paid-in capital. The valuation considered the following assumptions- risk free rate of 2%; expected dividends of 0%; expected forfeiture rate of 0%; expected volatility of 131.59%; market price of the Company's common stock of $0.17 and expected life of 5 years. If the closing price of the common shares is over $0.30 per share for a period of 20 consecutive trading days ending after November 28, 2019, the Company may give notice accelerating the expiry date of the agent warrants to a date not less than 30 days following the date of that notice.

<u>Stock Options:</u>

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

Risk free rate	2.00%
Expected dividends	0%
Expected forfeiture rate	0%
Expected volatility	134.27%
Expected life	5 years

Market price of the Company’s common stock on date of grant of options	$	0.10
Stock-based compensation cost expensed	$	61,358
Unvested stock-based compensation expense	$	39,047

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

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

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

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

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

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

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

Three months ended February 28, 2018

Warrants

The Company did not issue any warrants during the three- month period ended February 28, 2018.

Stock Options:

On March 27, 2017, the board of directors had granted options to the CEO to acquire a total of 1,150,000 common shares. These options were issued at an exercise price of CAD $0.13 ($0.10) per share and vest thirty-three and one-third (33 1/3) percent every six months commencing January 1, 2017, with an expiry term of five years. The Company expensed stock- based compensation expense of $16,734 regarding the vesting of options during the three- month period ended February 28, 2018.

As of February 28, 2018, there was $22,313 of unrecognized expense related to non-vested stock-based compensation arrangements granted.

6. RELATED PARTY TRANSACTIONS

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

Three months ended February 28, 2018

As of February 28, 2018, there are no amounts receivable from related parties.

As of February 28, 2018, the Company had payables of $9,816 to related parties to be settled in cash, $112,500 for shares pending issuance and an additional $33,333 payable to be settled by issuance of stock in April, 2018.

Effective as of October 1, 2017, the Company entered into an employment agreement with Paul Jensen pursuant to which Mr. Jensen serves as President and Chief Operating Officer of the Company. By the terms of the Employment Agreement, Mr. Jensen will receive an annual salary of $200,000, payable as follows. For the period beginning on October 1, 2017 and ending on June 30, 2018, Mr. Jensen shall receive quarterly payments of the Company's common stock, to be issued 15 days after the end of each three-month calendar quarter (see Note 7).

The Company expensed $19,380 for services provided by the CFO of the Company which was paid to a corporation in which the CFO has an ownership interest, in accordance with the consulting contract. The Company expensed $40,380 (CAD $50,000) for services provided by the CEO of the Company and which was paid to a corporation in which the CEO has an ownership interest, in accordance with the consulting contract.

On March 27, 2017, the board of directors had granted options to the CEO to acquire a total of 1,150,000 common shares. The Company expensed $16,734 for fair value of options which vested during this period.

Effective December 1, 2017, the Company leased office premises at Wakefield, Massachusetts, USA for a rent of $700 per month from a corporation owned and controlled by a director of the Company. The Company expensed $2,100 as lease rent for the quarter ended February 28, 2018.

Three months ended February 28, 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 deemed price of $0.1142 per share to satisfy the payment of USD $50,000 due on November 15, 2016. In addition, the Company executed a one-year service agreement with NEIP effective January 1, 2017 to pay compensation of $7,500 per month. The Company expensed $15,000 for services provided during the quarter ended February 28, 2017.

The Company expensed $8,500 for services provided by the CFO of the Company and $26,500 for services provided by a Corporation in which the CEO has an ownership interest, in accordance with the consulting contract. In addition, the CEO was paid a salary of $5,300 during the quarter.

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 CAD $200,000 ($156,000) 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 (Note 5). The Company must pay four months of pay for termination without cause or change of control.

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

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

b) Lease commitments

The Company has commitments for leasing office premises in Oakville, Ontario, Canada to April 30, 2018 at a monthly rent of CAD $6,399 ($5,000) and Wakefield, Massachusetts, USA to June 27, 2019, at a monthly rent of $2,100.

(Amounts expressed in US Dollars)

8. EXCLUSIVE SUPPLY AND PURCHASE AGREEMENTS

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

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

9. CONVERTIBLE DEBENTURES AND DEFERRED FINANCING COSTS

a) Unsecured Convertible Debentures

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

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

Unsecured convertible debentures

	Unsecured convertible debentures	Deferred financing costs	Unsecured convertible debenture (Net)
	$	$	$
Balance as of November 30, 2016	(1,153,540)	35,769	(1,117,771)
Exchanged for subordinate secured debentures	1,015,026	-	1,015,026
Amortization of deferred financing costs	-	(35,769)	(35,769)
Repayment of unsecured convertible debentures	66,640	-	66,640
Conversion of unsecured convertible debentures to equity	39,159	-	39,159
Foreign currency translation	(7,642)	-	(7,642)
Balance as of November 30, 2017	(40,357)	-	(40,357)
Repayment of unsecured convertible debentures	40,357	-	40,357
Balance as of February 28, 2018	-	-	-

On August 6, 2017, the Company repaid CAD $84,000 ($66,640) of convertible debentures and the remaining convertible debenture holders for $40,357 executed agreements for forbearance of their debt with a new repayment date of February 16, 2018. In February 2018, the Company repaid the convertible debt for $40,357 along with accrued interest. During the quarter ended February 28, 2018, the Company recorded interest expense for $1,035.

(Amounts expressed in US Dollars)

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

b) ***Long-term Series B Secured Convertible Debentures $925,728***

Series B secured convertible debentures

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

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

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

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

The carrying value of these debentures at February 28, 2018 is CAD $ 1,185,766 ($925,728) and at November 30, 2017 was CAD$1,149,563 ($892,176).

Discounts (premiums) on the convertible notes arise from (i) the allocation of basis to other instruments issued in the transaction, (ii) fees paid directly to the creditor and (iii) initial recognition at fair value, which is lower than face value. Discounts (premiums) are amortized through charges (credits) to interest expense over the term of the debt agreement. Amortization of debt discounts (premiums) amounted to CAD$36,202 ($28,748) during the three- month period ended February 28, 2018 (February 28, 2017 – CAD $31,980 ($24,209)). In addition, the closing balance was converted at the year-end exchange rate which resulted in a foreign currency translation loss of $4,804. During the quarter ended February 28, 2018, the Company recorded interest expense $32,872 (February 28, 2017 - $28,900).

Derivative Liabilities

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

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

The components of the compound embedded derivative as of February 28, 2018 are:

Financings giving rise to derivative financial instruments	Indexed Shares		Fair Value
Series B Convertible Secured Debentures December 7, 2016	8,044,853	$	541,692
	8,044,853	$	541,692

The following table summarizes the effects on the gain (loss) associated with changes in the fair values of the derivative financial instruments by type of financing for the year ended November 30, 2017 and three- month period ended February 28, 2018:

Financings giving rise to derivative financial instruments and the income effects:		
Compound embedded derivatives:		
Series B Convertible Secured Debentures		
December 7, 2016	$	(285,612)
Change in fair value of derivative liabilities		(239,802)
Foreign currency translation loss		(14,446)
Balance as of November 30, 2017	**$**	**(539,860)**
Change in fair value of derivative liabilities		1,391
Foreign currency translation loss		(3,223)
Balance as of February 28, 2018	**$**	**(541,692)**

Fair Value Considerations

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

Level 1 valuations: Quoted prices in active markets for identical assets and liabilities.

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

Level 3 valuations: Significant inputs to valuation model are unobservable.

The Company follows the provisions of ASC 820 with respect to the financial instruments. As required by ASC 820, assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. Our derivative financial instruments which are required to be measured at fair value on a recurring basis under of ASC 815 as of February 28, 2018 are all measured at estimated fair value using Level 2 and 3 inputs.

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

		February 28, 2018		November 30, 2017		December 7, 2016
Derivative financial instruments	$	541,692	$	539,860	$	285,612
Conversion price	$	0.13	$	0.13	$	0.24
Volatility		99%		106%		82%
Remaining term (years)		1.27		1.52		2.50
Risk free rate		2.08%		1.78%		1.10%

(Amounts expressed in US Dollars)

10. INVENTORY

Inventory as of February 28, 2018 consists of finished goods of Blunt Impact Projectiles 40mm for $124,535 (November 30, 2017: $109,673) and inventory procured from other suppliers for $66,006 (November 30, 2017: $47,630). The Company values its inventory on a first-in, first-out basis. Inventory is valued at the lower of cost or net realizable value.

11. SEGMENT DISCLOSURES

The Company is organized on two geographic areas in U.S.A. and Canada respectively. The U.S.A. and Canada operations are the Company's operating segments and reportable segments, and each of those segments are led by the Company's CEO. Performance is assessed and resources are allocated by the CEO, whom we have determined to be the Company's Chief Operating Decision Maker (CODM). Management evaluates the segments based primarily upon revenue and assets. The tables below present segment sales and assets for the quarters ended February 28, 2018 and February 28, 2017:

Quarter ended February 28, 2018

	SDI USA	SDI Canada	Total
Sales	$ 28,108	$ 230	$ 28,338

Quarter ended February 28, 2017

	SDI USA	SDI Canada	Total
Sales	$ 39,265	$ 7,756	$ 47,021

	2018	2017
Sales	$ 28,338	$ 47,021
Elimination of intersegment revenue	(222)	(4,588)
Consolidated sales	$ 28,116	42,433

As at February 28, 2018

	SDI	SDI Canada	Total
Assets	$ 1,803,423	$ 23,553	$ 1,826,976

As at November 30, 2017

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

12. PRIOR PERIOD RESTATEMENT

The financial statements for the prior quarter ended February 28, 2017 are revised to record the bifurcation of the derivative liability from the host Series B Secured Convertible Debentures issued on December 7, 2016, following further analysis of convertible debt instrument issued by the Company in Canadian dollars. The analysis was conducted during the preparation of annual financial statements for 2017.

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

	Quarter ended	
	February 28, 2017	
	Prior to	
	Restatement	Restated
	$	$
Consolidated Balance Sheet:		
Secured convertible debentures, net of deferred financing costs	1,615,201	1,350,487
Derivative liabilities	467,671	606,991
Total Liabilities	2,523,621	2,398,227
Accumulated deficit	(28,563,975)	(28,438,581)
Total Stockholders' Deficiency	(1,186,801)	(1,061,407)
Consolidated Statement of Operations and Comprehensive Loss:		
Foreign currency translation loss	13,156	13,822
Selling, general and administration	523,613	479,160
Total Operating Expenses	548,741	504,954
Loss from Operations	(529,419)	(485,632)
Change in fair value of derivative liabilities	421,379	571,648
Accretion	-	(68,662)
Loss before Income Taxes	(265,362)	(139,968)
Net Loss	(265,362)	(139,968)
Comprehensive Loss	(243,209)	(117,815)
Loss per share-basic and diluted	(0.004)	(0.002)
Consolidated Statement of Cash Flows	Three months ended	
	February 28, 2017	
Net Loss	(265,362)	(139,968)
Adjustment for: Foreign currency translation	13,156	13,822
Amortization of debt discount	44,453	68,662
Change in fair value of derivative liabilities	(421,379)	(571,648)
Net cash used in operating activities	(477,651)	(477,651)

13. SUBSEQUENT EVENTS

a) The Company made a share issuance to NEIP under the consulting agreement announced on June 16, 2017. SDI issued 507,550 common shares at a price of $0.1231 per share to satisfy the payment of $62,500 due in December 2017. The shares are subject to a four-month holding period.

b) The Company made a share issuance to Paul Jensen under the employment agreement announced on August 28, 2017. SDI issued 339,370 common shares at a price of $0.1473 per share to satisfy the payment of $50,000, payable for the months of October to December 2017. The shares are subject to a four-month holding period.

c) On April 13, 2018, the Company entered into a Purchase and Sale Agreement (the "Agreement") with André Buys, a resident of

South Africa ("Mr. Buys"), pursuant to which the Company purchased from Mr. Buys a portfolio of registered patents, provisional patents, and other intellectual property relating to air and/or gas fired long guns or pistols, including pump action launchers and munitions used with such pistols and long guns, including self-stabilizing shaped or "finned" rounds (the "Portfolio"). As consideration for Portfolio, the Company (i) paid Mr. Buys $100,000, (ii) agreed to pay Mr. Buys either $500,000 in cash or $750,000 worth of Company stock within two years (the "Second Payment"), (iii) agreed to issue 1,500,000 options or warrants for shares of the Company's common stock to Mr. Buys within 120 days with a strike price equal to the Company's stock price on April 13, 2018 and a trigger price of $0.30, $0.50 and $1.00 for each batch of 500,000 options, respectively. The Company's stock price must close above the trigger price for 20 days in order for the option or warrant to be triggered. The options or warrants shall have a seven year life from grant date and Andre Buys must remain employed by the Company for three years in order for the options or warrants to vest, and (iv) agreed to pay Mr. Buys certain royalty payments for sales of products by the Company using technology covered by the Portfolio. Until the earlier of, the second anniversary or the date the Second Payment is made, the royalty will be 10% of the Net Sales Price ("NSP"). The royalty will then be reduced to 4% till the sixth anniversary, 3% till the eighth anniversary, and 2% till the last expiration date of any of the intellectual property in the Portfolio. Until the royalty exceeds $25,000 per year, the Company is committed to a minimum payment of $25,000 per year effective on the earlier of one year from closing or upon Andre Buys relocation to Boston. In the event that the Company fails to make the Second Payment, the Portfolio would revert to Mr. Buys, but the Company would retain perpetual, irrevocable, exclusive and non-exclusive licenses to use technology with respect to the Portfolio and any technology developed within two years of April 13, 2018. In addition, the Company has hired Mr. Buys as its Chief Technology Officer at a starting salary of $10,000 per month. The company agrees that it will not terminate Andre Buys except for cause prior to the end of three years. The Company is liable to reimburse Andre Buys for up to $10,000 in closing costs.

PART II

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

THREE MONTHS ENDED FEBRUARY 28, 2018

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

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

ITEM 1. BUSINESS

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

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

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

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

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

History

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

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

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

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

The Blunt Impact Projectile (BIP) – A Transformative Technology

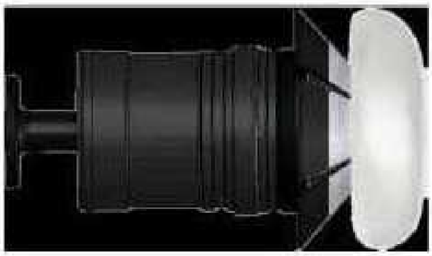
When the less-lethal industry was dominated by the 37mm launcher, a number of less-lethal companies developed "impact munition rounds" designed to "stop" an assailant. These rounds were nothing more than a piece of plastic, wood baton, rubber baton, or a piece of plastic with a piece of sponge rubber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

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

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

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

Prior to Impact



At Impact

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

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

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

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 HECOE ("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 ("Unsecured Debentures") at $1,000 per debenture for gross proceeds of $1,549,000 (the "Private Placement").

October - SDI. 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 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 the second quarter, 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.

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.

June-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.

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

1) The same Board of Directors 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 fiscal 2015, SDI added 24 new Law Enforcement and Correctional Agencies to its paid customer base.

2016

In December 2015, SDI was invited to conduct a full product briefing and live fire demonstration for key Management with the United Sates 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.

During the second quarter of 2016, the Company continued to pursue a targeted acquisition through several funding sources, and financing structures. 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 terminated discussions with the Target at this time.

Subsequent to the quarter, the Company announced that Gregory Sullivan 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.

The Company signed a one-year consulting agreement with Northeast Industrial Partners LLP ("NEIP"), which is controlled by Bryan Ganz. NEIP 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, NEIP was issued a value of $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.

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.

On June 8, 2016, Schedule 13D was filed with the SEC 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.

During the third quarter, 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 became effective.

During the third quarter, SDI reported that it had 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 per share to satisfy the payment of $50,000 due on August 15, 2016. The shares will be subject to a four-month hold period.

During the fourth quarter, 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.

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

During the fourth 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 focused 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.

2017

During the quarter, the Company completed the issuance of senior secured convertible notes (the "Senior Secured Notes") to raise $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 the Senior Secured Notes that not less than 80% of SDI's outstanding 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.

SDI issued 589,414 common shares at a price of $0.0848 per share to satisfy the payment of $50,000 due on November 15, 2016. The shares are subject to a four-month hold period expiring on May 14, 2017. The issuance of shares to NEIP 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.

NEIP 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. That approval was received on December 15, 2016 at the Annual General Meeting of shareholders.

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.

SDI 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.

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

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.

During the quarter, SDI agreed to extend the consulting agreement between the Company and NEIP first announced on June 20, 2016. SDI and NEIP 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, NEIP 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.

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 was made in Q3.

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. Safariland is a trade name of Safariland, LLC.

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.

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 per share to satisfy the payment of $50,000 due on May 15, 2017. The shares are subject to a four-month hold period expiring on September 16, 2017.

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.

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.

During the quarter, SDI appointed a new President and Chief Operating Officer, Paul Jensen effective October 1, 2017.

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.

The Royal Canadian Mounted Police awarded its request for standing offer tender during this quarter for 150,000 40mm less-lethal rounds to the Company's technology partner, which uses the Company's projectile in the production of its 40-millimetre Def-Tec round (The Safariland Group). The winning round is produced using SDI's patented collapsible-head technology, with the blunt impact projectile (BIP) married to Safariland's proprietary propulsion system. It is marketed under the brand name Defense Technology BIP.

Effective October 6, 2017 the Company amended its Certificate of Incorporation by filing an Amendment to Certificate of Incorporation (the "Amendment") with the Delaware Secretary of State. The Certificate of Incorporation was amended to increase the Company's authorized shares of common stock, par value $0.001, from 100,000,000 shares to 200,000,000 shares. The general effect of the Amendment was to permit the Company to issue additional shares of common stock.

The Company launched a new 40mm munition called the CHIP (Collapsible Head Impact Projectile). The CHIP encompasses SDI's patented collapsible head technology. The round is a more cost-effective round for end-user agencies, with safety in mind. The CHIP will be marketed domestically as well as internationally for the standard 40mm impact sponge or rubber head munition tenders.

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

On November 28, 2017 the Company completed a private placement (the "Private Placement") for the sale of 35,783,612 units (the "Units) at $0.106 per Unit for gross proceeds of $3,793,063.

Each Unit consists of one (1) common share of the Company's common stock (a "Common Share") and one-half (1/2) of one Common Share purchase warrant (each whole warrant, a "Warrant"). Each whole Warrant is exercisable into one Common Share on or before November 28, 2022 at an exercise price of $0.18. If the average closing price of the Common Shares is over $0.36 per share for a period of 20 consecutive trading days ending after November 28, 2019, the Company may give notice to the registered holders of the Warrants accelerating the expiry date to a date not less than 30 days following the date of such notice.

In connection with the Private Placement, the Company paid an agent commission of $60,669 in cash and issued 572,354 agent warrants ("Agent Warrants"). Each Agent Warrant is exercisable into one Common Share on or before November 28, 2022 at an exercise price of $0.15. If the average closing price of the Common Shares is over $0.30 per share for a period of 20 consecutive trading days ending after November 28, 2019, the Company may give notice to the registered holders of the Agent Warrants accelerating the expiry date to a date not less than 30 days following the date of such notice.

The Units, the Warrants, the Agent Warrants, and the shares of Common Stock issuable upon exercise of the Warrants and the Agent Warrants were issued in reliance upon the exemption from registration provided by Section 4(a)(2) of the Securities Act and Rule 506(b) of Regulation D promulgated thereunder.

The Company's independent registered public accounting firm Schwartz Levitsky Feldman ("SLF"), resigned as the Company's auditors by letter dated November 30, 2017 for personal reasons.

The reports of SLF on the Company's financial statements for the two most recent fiscal years ended November 30, 2016 and 2015 did not contain an adverse opinion or a disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles, other than a "going concern" qualification. During the Company's two most recent fiscal years ended November 30, 2016 and 2015 and during the subsequent interim period preceding SLF's resignation, there were: (i) no disagreements with SLF on any matter of accounting principles or practices, financial statement disclosures or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of SLF would have caused SLF to make reference to the subject matter of the disagreements in connection with its reports, and (ii) no reportable events of the type listed in paragraphs (A) through (D) of Item 304(a)(1)(v) of Regulation S-K. SLF also has confirmed the above statements to the Company's successor independent auditor in a letter dated December 1, 2017, which can be found in the Company's December 4, 2017 Form 8-K.

Following the resignation of SLF, the Company's Audit Committee met on December 1, 2017 and selected UHY McGovern Hurley LLP of Toronto, Ontario. The Company's Board of Directors confirmed the appointment and nominated UHY McGovern Hurly LLP for ratification by shareholders of the Company as the Company's independent auditors in the next fiscal year ending November 30, 2017.

The Company is in discussions with certain individuals and entities regarding acquiring or licensing IP (Intellectual Property) that will allow SDI to expand its product range from its core law enforcement, military and corrections markets to new markets including private security and personal/home security (consumer). Given that there are over 1 million private security guards in the US (U.S. Bureau of Labor Statistics) and over 120 million households in the US (United States Census Bureau), management believes these opportunities represent significant untapped markets for the Company.

Q1 2018

During the quarter the Company held its annual general meeting (AGM) at its head office in Wakefield, MA on December 19, 2017. Results of the AGM were filed in an 8K on December 21, 2017.

Subsequent Events

The Company issued 507,550 shares (the "Shares") of its common stock to Northeast Industrial Partners LLC ("Northeast") at a deemed price of $0.1231 per share. Northeast is controlled by Bryan Ganz, a member of the Company's board of directors. The Shares were the second installment to be paid by the Company to Northeast under a certain extension consulting agreement (the "Extension Consulting Agreement") as previously reported by the Company on a Form 14A Definitive Proxy Statement filed December 5, 2017, with voting results reported by the Company on a Form 8-K filed December 22, 2017. The Shares were issued in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended.

The Company also made a share issuance to Paul Jensen, the Company's President and COO under the employment agreement announced August 28, 2017 and reported by the Company on a Form 14A Definitive Proxy Statement filed December 5, 2017, with voting results reported by the Company on a Form 8-K filed December 22, 2017. The Company issued 339,370 common shares at a deemed price of $0.1473 per share to satisfy the payment of USD $50,000 due in January 2018. The Shares were issued in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended.

On March 28, 2018 the Company filed an S-1 Registration Statement ("S-1"). The S-1 relates to the registration of certain securities issued by the Company on November 28, 2017. The notice of effectiveness of the S-1 was received on April 6, 2018.

On April 8-9, 2018, the Company attended the MicroCap Conference in New York City to garner market awareness. The conference is an exclusive event dedicated to connecting small and micro-cap companies with high-level, institutional and retail investors. The response of the event was positive towards the Company's market space, product offerings, and growth prospects.

On April 13, 2018, the Company entered into a Purchase and Sale Agreement (the "Agreement") with André Buys, a resident of South Africa ("Mr. Buys"), pursuant to which the Company purchased from Mr. Buys a portfolio of registered patents, provisional patents, and other intellectual property relating to air and/or gas fired long guns or pistols, including pump action launchers and munitions used with such pistols and long guns, including self-stabilizing shaped or "finned" rounds (the "Portfolio"). As consideration for Portfolio, the Company (i) paid Mr. Buys $100,000, (ii) agreed to pay Mr. Buys either $500,000 in cash or $750,000 worth of Company stock within two years (the "Second Payment"), (iii) agreed to issue 1,500,000 options or warrants for shares of the Company's common stock to Mr. Buys within 120 days with a strike price equal to the Company's stock price on April 13, 2018 and a trigger price of $0.30, $0.50 and $1.00 for each batch of 500,000 options, respectively. The Company's stock price must close above the trigger price for 20 days in order for the option or warrant to be triggered. The options or warrants shall have a seven year life from grant date and Andre Buys must remain employed by the Company for three years in order for the options or warrants to vest and (iv) agreed to pay Mr. Buys certain royalty payments for sales of products by the Company using technology covered by the Portfolio. Until the earlier of the second anniversary or the date the Second Payment is made, the royalty will be 10% of the Net Sales Price ("NSP"). The royalty will then be reduced to 4% till the sixth anniversary, 3% till the eighth anniversary and 2% till the last expiration date of any of the intellectual property the Portfolio. Until the royalty exceeds $25,0000 per year, the Company is committed to a minimum payment of $25,000 per year effective on the earlier of one year from closing or upon Andre Buys relocation to Boston. In the event that the Company fails to make the Second Payment, the Portfolio would revert to Mr. Buys, but the Company would retain perpetual, irrevocable, exclusive and non-exclusive licenses to use technology with respect to the Portfolio and any technology developed within two years of April 13, 2018. In addition, the Company has hired Mr. Buys as its Chief Technology Officer at a starting salary of $10,000 per month. The company agrees that it will not terminate Andre Buys except for cause prior to the end of three years. The Company is liable to reimburse Andre Buys for up to $10,000 in closing costs.

Subsequent to the quarter, the Company received several purchase orders valuing in excess of $100,000 for their BIP line of munitions from international customers. The orders consist of repeat business as well as new larger agencies with hundreds of officers on staff. Agencies placing these orders included parts of Canada as well as the Middle East. The new business is in line with the Company's strategy of marketing outside of the US and North America and accelerating its licensing model.

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 platform was launched in the fourth quarter and agencies have begun signing up to view and purchase products online.

Products

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

The Company has two commercial product lines:

a) The Company has developed the BIP, a blunt impact projectile which uses pain compliance to control a target. The Company has developed eight versions of the standard BIP, seven of which contain a payload and one of which is a cheaper cost, training round. A payload is an internal medium within the BIP, holding a liquid or powder substance.

b) The Company offers a specified line of 12 gauge less lethal projectiles and irritants for law enforcement and correctional services agencies. The projectiles come in impact forms such as, rubber fins and a bean bag version.

c) 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. The Company has also filed for a trademark for the 'BIP'.

Non-Provisional (granted patents):

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

(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.

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

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

General

- As of February 28, 2018, SDI had both consultants and employees.
- SDI's offices are located at 107 Audubon Road, Bldg 2, Suite 201 Wakefield, MA 01880.
- SDI's website is www.securitydii.com.

Going Concern

The Company has incurred a cumulative loss of $31,454,576 from inception to February 28, 2018. The Company has funded operations through the issuance of capital stock, warrants and convertible debentures. The Company has started to generate revenue from operations. However, it still expects to incur significant losses before becoming profitable. The Company's future success is dependent upon its ability to raise sufficient capital or generate adequate revenue, to cover its ongoing operating expenses, and also to continue to develop and be able to profitably market its products. There can be no assurance that such financing will be available at all or on favorable terms. These factors raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty; such adjustments could be material.

Significant Quarterly Information

The following represents selected information of the Company for the most recently completed financial quarter ended February 28, 2018

	Three-month period February 28, 2018 (unaudited) $	Three-month period February 28, 2017 (unaudited) (restated) $
Net loss for the three- month period	(355,712)	(139,968)
Basic and diluted loss per share	(0.004)	(0.002)
Total assets	1,826,976	1,336,820
Total liabilities	1,727,405	2,398,227
Cash dividends per share	-	-

Results of Operations

SDI was incorporated on March 1, 2005 and for the period from inception to February 28, 2018 has not realized significant revenues. The company has started to generate revenue from operations. However, it still expects to incur significant expenses before becoming profitable.

Financial highlights (unaudited) for the period ending February 28, 2018 with comparatives are as follows:

Operating Results		For the three months ended February 28, 2018		For the three months ended February 27, 2017(Restated)
Sales	$	28,116	$	42,433
Cost of sales	$	(20,741)	$	(23,111)
Gross Profit	$	7,375	$	19,322
Operating Expenses	$	(301,823)	$	(504,954)
Other expenses -Interest	$	(33,907)	$	(157,322)
Accretion	$	(28,748)	$	(68,662)
Change in fair value of derivative liabilities	$	1,391	$	571,648
Net Loss for Period	$	(355,712)	$	(139,968)
Loss per Share		($0.004)		($0.002)

The Company's selected information for the quarter ended February 28, 2018 (unaudited) and November 30, 2017 (audited) are as follows:

	February 28, 2018	November 30, 2017
Total current assets	1,800,923	2,165,406
Total assets	1,826,976	2,192,357
Total current liabilities	801,677	973,558
Total liabilities	1,727,405	1,865,734
Stockholders' equity	99,571	326,623

Net loss for the three months ended February 28, 2018 was $355,712 ($0.004 per share) as compared to net loss of $139,968 ($0.002 per share) for the three- month period ended February 28, 2017. The major components of the change relate to:

During the quarter ended February 28, 2017, the company recorded a gain from the change in fair value of derivative liabilities by $571,648 as compared to $1,391 for the current period. In addition, the Company expensed selling, general and administration expenses for $290,443 in current period as compared to $479,160 for the prior period, thereby reflecting reduction in costs primarily in payroll and consulting.

Cash Flows

Net cash used in operations for the three months ended February 28, 2018, was $473,324 as compared to $477,651 used for the three months ended February 28, 2017. The major components of change relate to:

The Company's Inventory increased by $7,228 in the first quarter of 2018 as compared to a decrease of $53,825 in 2017. This increase in inventory represents the investment in inventory available for sale in next period. Prepaid expenses and other receivables increased by $151,753 in current period as compared to an increase of $23,963 for prior period. Prepayments in current period were made to its product manufacturer and additionally for insurance.

Net cash flow from investing activities was $(2,456) during the three- month period ended February 28, 2018 as compared to $(21,703) for the prior period ended February 28, 2017. The Company acquired property and equipment for $2,456 during the three- month period ended February 28, 2018 and $21,703 for the three-month period ended February 28, 2017.

Net Cash flow from financing activities was outflow of $(40,357) in the first quarter of 2018 as compared to inflow of $1,433,716 in 2017. This increase in financing activities in 2017 was the net cash from convertible debentures raised during the quarter. The reduction in 2018 was the repayment of unsecured convertible debentures when they became due for repayment.

There was an overall decrease in cash of $(527,456) in 2017 as compared to an increase in cash of $957,074 during 2017.

Liquidity and Capital Resources

As at February 28, 2018, cash and cash equivalent was $1,437,587, as compared to $1,965,043 at November 30, 2017. This decrease is mainly attributable to the combination of factors mentioned above under heading "Cash Flows".

At February 28, 2018, the Company had a working capital of $999,246. The major components are as follows; cash and cash equivalent $1,437,587; prepaid expenses and other receivables $156,906; Inventory for $190,541; accounts receivable for $15,889; derivative liabilities for $541,692 and accounts payable and accrued liabilities of $259,985.

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

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

Off-balance sheet arrangements

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

Transactions with related parties

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

Three months ended February 28, 2018

As of February 28, 2018, there are no amounts receivable from related parties.

As of February 28, 2018, the Company had payables of $9,816 to related parties to be settled in cash, $112,500 for shares pending issuance and an additional $33,333 payable to be settled by issuance of stock in April, 2018.

Effective as of October 1, 2017, the Company entered into an employment agreement with Paul Jensen pursuant to which Mr. Jensen serves as President and Chief Operating Officer of the Company. By the terms of the Employment Agreement, Mr. Jensen will receive an annual salary of $200,000, payable as follows. For the period beginning on October 1, 2017 and ending on June 30, 2018, Mr. Jensen shall receive quarterly payments of the Company's common stock, to be issued 15 days after the end of each three-month calendar quarter (see Note 7).

The Company expensed $19,380 for services provided by the CFO of the Company which was paid to a corporation in which the CFO has an ownership interest, in accordance with the consulting contract. The Company expensed $40,380 (CAD $50,000) for services provided by the CEO of the Company and which was paid to a corporation in which the CEO has an ownership interest, in accordance with the consulting contract.

On March 27, 2017, the board of directors had granted options to the CEO to acquire a total of 1,150,000 common shares. The Company expensed $16,734 for fair value of options which vested during this period.

Effective December 1, 2017, the Company leased office premises at Wakefield, Massachusetts, USA for a rent of $700 per month from a corporation owned and controlled by a director of the Company. The Company expensed $2,100 as lease rent for the quarter ended February 28, 2018.

Three months ended February 28, 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 deemed price of $0.1142 per share to satisfy the payment of USD $50,000 due on November 15, 2016. In addition, the Company executed a one-year service agreement with NEIP effective January 1, 2017 to pay compensation of $7,500 per month. The Company expensed $15,000 for services provided during the quarter ended February 28, 2017.

The Company expensed $8,500 for services provided by the CFO of the Company and $26,500 for services provided by a Corporation in which the CEO has an ownership interest, in accordance with the consulting contract. In addition, the CEO was paid a salary of $5,300 during the quarter.

Compensation of Directors during Quarters Ended February 28, 2018 and February 28, 2017.

Quarter ended February 28, 2018:

Non-Independent Directors		Paid/Payable in Cash	Stock Awards	Awards of Options or Warrants (1)
Dean Thrasher (1)	$	40,380	--	16,734
Bryan Ganz	$		--	
Independent Directors				
Karen Bowling	$	-	-	-
Don Levantin	$	-	-	-

(1) The fair value of options or warrants granted computed in accordance with ASC 718 on the date of grant.

Quarter ended February 28, 2017

Non-Independent Directors		Paid/Payable in Cash	Stock Awards	Awards of Options or Warrants (2)
Dean Thrasher (1)	$	31,800	--	-
Bryan Ganz (3)	$		50,000	
Independent Directors				
Keith Morrison	$	-	-	-
David Goodbrand	$	-	-	-
Karim Kanji	$	-	-	-

(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 589,414 common shares at a deemed price of $0.1142 per share to satisfy the payment of $50,000 issued to NEIP, a Corporation in which Mr. Ganz has an ownership interest,

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 CAD $200,000 ($156,000) 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 four months of pay for termination without cause or change of control.

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

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

b) Lease commitments

The Company has commitments for leasing office premises in Oakville, Ontario, Canada to April 30, 2018 at a monthly rent of CAD $6,399 ($5,000) and Wakefield, Massachusetts, USA to June 27, 2019, at a monthly rent of $2,100.

EXCLUSIVE SUPPLY AND PURCHASE AGREEMENTS

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

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

SUBSEQUENT EVENTS

a) The Company made a share issuance to NEIP under the consulting agreement announced on June 16, 2017. SDI issued 507,550 common shares at a price of $0.1231 per share to satisfy the payment of $62,500 due in December 2017. The shares are subject to a four-month holding period.

b) The Company made a share issuance to Paul Jensen under the employment agreement announced on August 28, 2017. SDI issued 339,370 common shares at a price of $0.1473 per share to satisfy the payment of $50,000, payable for the months of October to December 2017. The shares are subject to a four-month holding period.

On April 13, 2018, the Company entered into a Purchase and Sale Agreement (the “Agreement”) with André Buys, a resident of South Africa (“Mr. Buys”), pursuant to which the Company purchased from Mr. Buys a portfolio of registered patents, provisional patents, and other intellectual property relating to air and/or gas fired long guns or pistols, including pump action launchers and munitions used with such pistols and long guns, including self-stabilizing shaped or “finned” rounds (the “Portfolio”). As consideration for Portfolio, the Company (i) paid Mr. Buys $100,000, (ii) agreed to pay Mr. Buys either $500,000 in cash or $750,000 worth of Company stock within two years (the “Second Payment”), (iii) agreed to issue 1,500,000 options or warrants for shares of the Company’s common stock to Mr. Buys within 120 days with a strike price equal to the Company’s stock price on April 13, 2018 and a trigger price of $0.30, $0.50 and $1.00 for each batch of 500,000 options, respectively. The Company’s stock price must close above the trigger price for 20 days in order for the option or warrant to be triggered. The options or warrants shall have a seven year life from grant date and Andre Buys must remain employed by the Company for three years in order for the options or warrants to vest and (iv) agreed to pay Mr. Buys certain royalty payments for sales of products by the Company using technology covered by the Portfolio. Until the earlier of the second anniversary or the date the Second Payment is made, the royalty will be 10% of the Net Sales Price (“NSP”). The royalty will then be reduced to 4% till the sixth anniversary, 3% till the eighth anniversary and 2% till the last expiration date of any of the intellectual property the Portfolio. Until the royalty exceeds $25,0000 per year, the Company is committed to a minimum payment of $25,000 per year effective on the earlier of one year from closing or upon Andre Buys relocation to Boston. In the event that the Company fails to make the Second Payment, the Portfolio would revert to Mr. Buys, but the Company would retain perpetual, irrevocable, exclusive and non-exclusive licenses to use technology with respect to the Portfolio and any technology developed within two years of April 13, 2018. In addition, the Company has hired Mr. Buys as its Chief Technology Officer at a starting salary of $10,000 per month. The company agrees that it will not terminate Andre Buys except for cause prior to the end of three years. The Company is liable to reimburse Andre Buys for up to $10,000 in closing costs.

Mine Safety Disclosures

Not applicable.

Revenue Recognition

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

Outstanding share data

As of April 16, 2018, the Company had 93,861,054 issued and outstanding shares of common stock.

Risk Factors

Series B secured convertible debentures (Subordinate Secured Convertible Debentures)

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

Additional Financing

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

General Venture Company Risks

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

Uncertainty of Revenue Growth

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

Dependence on Management and Key Personnel

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

Dependence on Key Suppliers

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

Product Liability

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

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

Strategic Alliances

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

Marketing and Distribution Capabilities

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

Rapid Technological Development

The markets for the Company's products and services are characterized by rapidly changing technology and evolving industry standards, which could result in product obsolescence or short product life cycles. Accordingly, the Company's success is dependent upon its ability to anticipate technological changes in the industries it serves and to successfully identify, obtain, develop and market new products that satisfy evolving industry requirements. There can be no assurance that the Company will successfully develop new products or enhance and improve its existing products or that any new products and enhanced and improved existing products will achieve market acceptance. Further, there can be no assurance that competitors will not market products that have perceived advantages over the Company's products or which render the products currently sold by the Company obsolete or less marketable. Regardless of the Industry as a whole, the less lethal sector moves somewhat slower in the adaptation and integration of new products.

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

Competition

The Company's industry is highly competitive and composed of many domestic and foreign companies. The Company has experienced and expects to continue to experience, substantial competition from numerous competitors whom it expects to continue to improve their products and technologies. Competitors may announce and introduce new products, services or enhancements that better meet the needs of end-users or changing industry standards, or achieve greater market acceptance due to pricing, sales channels or other factors. Competitors may be able to respond more quickly than the Company to changes in end-user requirements and devote greater resources to the enhancement, promotion and sale of their products.

Regulation

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

Intellectual Property

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

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

Infringement of Intellectual Property Rights

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

Litigation may be necessary to determine the scope, enforceability and validity of third party proprietary rights or to establish the Company’s proprietary rights. Some of its competitors have, or are affiliated with companies having, substantially greater resources than the Company and these competitors may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than the Company. Regardless of their merit, any such claims could be time consuming to evaluate and defend, result in costly litigation, cause product shipment delays or stoppages, divert management’s attention and focus away from the business, subject the Company to significant liabilities and equitable remedies, including injunctions, require the Company to enter into costly royalty or licensing agreements and require the Company to modify or stop using infringing technology.

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

Health and Safety

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

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

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

Insurance and Uninsured Risks

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

Conflicts of Interest

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

Dividend Policy

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

Lack of Active Market

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

Market Price of Common Shares

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

Political Regulatory Risks

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

Dividends

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

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 February 28, 2018, SDI's Principal Executive Officer and Principal Financial Officer evaluated the effectiveness of the design and operation of SDI's disclosure controls and procedures. Based on that evaluation, SDI's Principal Executive Officer and Principal Financial Officer concluded that SDI's disclosure controls and procedures were not effective due to the following material weakness:

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

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

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

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

(b) *Changes in Internal Controls*. There were no changes in SDI's internal control over financial reporting during the quarter ended February 28, 2018 that materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

Exhibits

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

SIGNATURES

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

SECURITY DEVICES INTERNATIONAL, INC.

Date: April 16, 2018

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

Date: April 16, 2018

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

Exhibit 31.1

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.

April 16, 2018

/s/ Dean Thrasher
Dean Thrasher,
Principal Executive Officer

Exhibit 31.2

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.

April 16, 2018

/s/ Rakesh Malhotra

Rakesh Malhotra,
Principal Financial Officer

Exhibit 32

In connection with the quarterly report of Security Devices International, Inc., (the "Company") on Form 10-Q for the quarter ended February 28, 2018 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.

April 16, 2018	/s/ Dean Thrasher Dean Thrasher, Principal Executive Officer
April 16, 2018	/s/ Rakesh Malhotra Rakesh Malhotra, Principal Financial Officer