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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended **November 30, 2013**

OR

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

Commission File No. - **None**

**SECURITY DEVICES INTERNATIONAL, INC.**

*(Name of Small Business Issuer in its charter)*

**Delaware**

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

**71-1050654**

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

**1101 Pennsylvania Ave., NW, 6<sup>th</sup> Floor  
Washington, DC 20004**

*(Address of Principal Executive Office)*

*Zip Code*

Registrant's telephone number, including Area Code: **(905) 582-6402**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

Yes  No

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

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes  No

The aggregate market value of the Common Stock held by non-affiliates of the issuer, as of May 31, 2013, was approximately \$8,408,000 based upon a share valuation of \$0.35 per share. This share valuation is based upon the closing price of the Company's shares as of May 31, 2013 (the date of the last sale of the Company's shares closest to the end of the Company's second fiscal quarter). For purposes of this disclosure, shares of Common Stock held by persons who the issuer believes beneficially own more than 5% of the outstanding shares of Common Stock and shares held by officers and directors of the issuer have been excluded because such persons may be deemed to be affiliates of the issuer.

As of February 18, 2014, the Company had 46,849,285 issued and outstanding shares of common stock.

Documents incorporated by reference: **None**

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## **ITEM 1. BUSINESS**

### **History**

Security Devices International Inc. 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 term 40mm refers to the diameter of the bullet (sometimes also referred to as a round or a projectile) and bullets of this size are required for standard issue military riot guns. 40mm bullets are also the emerging standard among riot guns used by police forces and correctional services, although many police forces are currently using 37mm riot guns. 40mm rounds are quickly becoming the industry standard in both military and law enforcement circles.

The Company began with development of a wireless electric projectile (a "WEP"), named the Lektrox. The Company hired Elad Engineering Ltd. ("Elad") a ballistics engineering firm located in Tel Aviv, Israel, to collaborate in the development of the WEP. The WEP uses mini-harpoons to fix the bullet to the target's clothing or body. The bullet contains an electrical system that releases a charge that imitates the electro-neural impulses used by the human body. Sending out a control signal to the muscles, this high-voltage low-current pulse overrides the target's nervous system inducing a muscle spasm that causes the target to fall to the ground helplessly.

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. The testing evaluated the effectiveness and safety of the electrical output compared to the Government's standard total body effects model. Testing was completed in November 2009 and a report was prepared by Penn State University and submitted to the JNLWD in January 2010. An executive summary was released to the Company indicating a positive outcome. Research and development continued on the WEP until mid-2010.

To reduce kinetic energy levels, the head of the WEP contains a cushioning mechanism composed of a collapsible material that enlarges the contact surface and absorbs part of the impact. In June 2010, the Company began development of a 40mm blunt impact projectile (the "BIP"), which used the cushioning mechanism of the WEP but did not contain the electrical mechanism of the WEP. The BIP used the pain of impact to obtain compliance from the target.

In the fall of 2010 the Company underwent a change in the board of directors and management. Two new directors were appointed and the board of directors appointed a Chief Operating Officer. The Company contracted with Level 4 Capital Corp. to assist with restructuring of the Company, contract negotiations and operational issues.

Early in 2011 the Company decided to focus its attention on the BIP and to discontinue further development work on the WEP. 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 BIP is also less expensive to produce than the WEP, and can be sold for a lower price. The Company plans to use revenue received from BIP sales to complete the development and production line for the WEP.

Initially, the Company's products were designed, tested and assembled in Israel. In 2011, the Company moved its engineering, intellectual property and production facilities from Tel Aviv, Israel to the operator (the "BIP Manufacturer") of an injection molding facility outside of Boston, Massachusetts. The BIP Manufacturer has a history of manufacturing 40mm components for the military sector, and provides molding services to the medical, aerospace, petrochemical, commercial, electronics, and defense industries.

The Company attended several military tradeshows through 2011 and signed a teaming agreement with Chemring Ordnance Inc. ("Chemring"), of Perry, Florida in December 2011. The agreement gives Chemring the non-exclusive right to market and sell the BIP worldwide for a five-year term. Chemring is responsible for its costs of marketing the BIPs and BIPs sold through this arrangement will bear the Chemring brand. The Company has retained the right to market the BIP directly to military, law enforcement and government agencies outside of Chemring's sales channels.

Research and development for the BIP was completed in the summer of 2012.

In October 2012, the Company obtained an ammunition certification from Chemring which meant that the BIP satisfied the standards set by Chemring for products which it would distribute.

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 June 2012, the Company contracted CRT Less Lethal Inc. ("CRT") to test the BIP. CRT is a Seattle-based company founded in 2003 with expertise in the analysis, evaluation and human effects testing of less-lethal munitions. The testing protocol included accuracy, precision, consistency, muzzle and target energy, impact energy density and effective range of the BIP. Human volunteers were used during the test firing, revealing full effects to the lower body from the blunt trauma of the BIP. Extensive wound profiling from the tests were finalized in a detailed report from CRT. 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 the BIP Manufacturer. An engineering team is available to the Company through the BIP Manufacturer for development of all of the core components of the BIP and any product changes that are necessary.

During 2012, the Company attended several law enforcement tradeshow and conducted live fire demonstrations with government agencies in Canada, and the US. Live fire demonstrations allow the Company to demonstrate the short and long distance firing capabilities, accuracy and relative safety of the BIP.

In 2012, the Company began the development of five new less-lethal ammunition rounds. These new rounds will be a modified version of the BIP, four of which will 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 liquid), BIP MO (malodorant liquid), and the BIP TR (training round). The Company has now moved into the testing phase with the payload rounds.

In 2013, the Company moved its full manufacturing operations to a supply manufacture and engineering company in the Boston, MA area. This allowed the Company to become fully autonomous from its previous partner, Chemring Ordnance of Florida, USA. SDI decreased its manufacturing costs in this process and is in full control of its manufacturing and logistics processes as a result.

In 2013 the Payload configuration was completed and the final versions of the BIP Payload rounds were prototyped. The full production of the BIP Payload models are to be completed in the first calendar quarter of 2014.

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

SDI continued to sign distributors, agents and referral agents to market and sell SDI's innovative non-lethal ammunition, globally. At year-end, SDI had signed a total of 9 distributors or agents, covering the following Countries: Canada, Israel, Saudi Arabia, Jordan, Oman, Kuwait, Bahrain, Turkey, Portugal, Spain, France, California, India, South America, and select African countries.

In June 2013, SDI, through its teaming agreement, Chemring Ordnance supplied the Israel Defense Forces with 900 BIP rounds for testing and evaluation. SDI also received a purchase order from the United States Border Patrol for 110 rounds to be used for testing and evaluation for a procurement that is expected in 2014.

Montreal Police also purchased rounds for testing and evaluation from SDI.

In the fourth quarter of 2013, SDI sold rounds to Orange County Florida Sheriff's department for use by their SWAT team as well as Campbell County, Virginia for SWAT use, and Indian River Sheriff's Department in Florida for use in their Correctional Services facility.

In November 2013, SDI's BIP rounds were showcased at the International SWAT Competition in Florida. The event hosted 57 SWAT teams from around the world that competed in a week long competition. SDI's BIP rounds were used by the competing teams in the less-lethal competition, giving SDI international exposure for their rounds.

The requests for demonstrations of SDI's products were strong from the Law Enforcement sector in 2013 and SDI staff conducted dozens of multi-agency live fire demonstrations, in 4 countries.

SDI attended and demonstrated to a military agency in an African country. The capability of the BIP round and the Company is currently in the follow up stage with this Agency.

SDI attended and demonstrated to a large Police Force in India. The capability of the BIP round and the Company is currently in the follow up stage with this Agency.

## Products

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

The Company has two products:

- a) The Company has developed the BIP, a blunt impact projectile which uses pain compliance to control a target. The Company is developing five versions of the standard BIP, four of which contain a payload and one of which is a cheaper cost practice round. A payload is an internal capsule within the BIP, which holds a liquid or powder substance.
- b) 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.

## Less-Lethal Sector

Both military and law enforcement agencies are seeking alternatives to traditional lethal ammunition. From a military standpoint, the involvement of armed forces in populated areas has created a need for less-lethal ammunition. Police forces also require non-lethal ammunition for riot control and critical incident de-escalation, motivated in part by a desire to avoid expensive litigation.

Chemical irritants (such as tear gas) have been sporadically used by military and have been adopted by police forces around the world for use in riot control.

Throughout the 1970's and 1980's the military and police forces began to use kinetic energy impact projectiles. These projectiles included wood, rubber and bean-bag material as ammunition. Many of these projectiles are still being used by military and police forces around the world. There has been very little technology progression within this space over the last half a century.

The rubber bullet was developed by the Ministry of Defense for the British Army in Northern Ireland at the request of army officers who wanted a weapon for use in civil disturbances with a range beyond a stone-throwing distance. In management's opinion, rubber bullets are inaccurate and have unpredictable ricochets. In addition, management believes that they have caused numerous severe injuries and several deaths.

The nature of a military's role has changed significantly to the extent that the military becomes actively engaged in the policing of civilian populations. This is where the military in effect, intersects with local police forces to support and uphold national and regional law. Today, military units are involved in on-going conflicts that bring them into direct contact with civilian populations in Iraq, Afghanistan and various countries in the Middle East. Soldiers who are deployed in humanitarian roles are often subject to rules of engagement, which disallow the use of deadly force unless soldiers encounter a lethal threat. The military requires less-lethal deterrent ammunition for use in crowd and riot control, perimeter security and pilfering situations. In management's opinion, less-lethal ammunition means a greater opportunity to preserve life.

Police and military forces require easily applied options for riot control without the consequences of lethal force. In addition to the litigation, administrative and financial resources required to defend the use of lethal force, there is a moral consideration as well. Police and military forces must balance the risk of injury or death to their own personnel against the risk of injury to civilians, including bystanders. Riot control involves difficult and challenging decision that often must be made within seconds.

Both police and military personnel are demanding access to options that fall somewhere between physically charging into a crowd with batons and firing munitions designed to kill targets. If these personnel are equipped and trained with less-lethal munitions, they are better equipped to diffuse a riot and regain control. By providing soldiers and police with a midlevel force response, appropriate to the level of threat, the chance of an escalation can be reduced. In addition, if this less-lethal response can be employed at a standoff distance, the troops or officers can maintain a buffer zone between themselves and the crowd. The capability to target a specific individual, as opposed to spraying an entire crowd, reduces the risk of injury to innocent bystanders and political backlash.

Conflicts in Iraq and Afghanistan, events such as the August 2011 UK riots, and the June 2012 Quebec student street violence have led governments, police and defense decision-makers to seek cost effective less-lethal weapons. These decision-makers understand that social media will limit the use of lethal weapons and a new generation of less-lethal weapons is required.

## Significant Events

During the third quarter of 2013, the Company completed the following events:

- the Company was given conditional approval from the Ontario Securities Commission (OSC) for a public offering
- the Company filed its amended and restated prospectus with the OSC and TSX Venture Exchange
- the Company completed its Initial Public Offering on the TSX Venture Exchange, raising a gross proceeds of CDN \$3,993,980

## General

As of February 18, 2014, SDI had consultants and no full-time employees.

SDI's offices are located at 1101 Pennsylvania Ave., NW, 6th Floor Washington, DC 20004, 4830 West Kennedy Blvd., suite 600, Tampa, Florida, 33609 and 125 Lakeshore Road East, Unit 300, Oakville, Ontario L6J 1H3 Canada. SDI's rents its Ontario office at a cost of CAN \$6,399 per month pursuant to a lease which expires on April 30, 2018. SDI rents its Tampa, Florida, USA office at a cost of \$1,418 per month pursuant to a lease which expires on June 30, 2014. The Washington, DC, USA office does not have a lease term and runs month by month

SDI's website is [www.securitydii.com](http://www.securitydii.com).

## ITEM 2. DESCRIPTION OF PROPERTY

See Item 1 of this report.

## ITEM 3. LEGAL PROCEEDINGS.

In November of 2013, a former officer filed a suit against the Company in the Ontario Superior Court of Justice (Province of Ontario) seeking, among other things, \$60,000 in damages for wrongful dismissal, damages of \$35,000 on account of vacation pay and damages to be determined for out of pocket expenses, breach of contract, unjust enrichment and loss of business opportunity. Management of the Company believes this suit is without merit and the Company intends to vigorously defend against the suit.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not Applicable

## ITEM 5. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND OTHER SHAREHOLDER MATTERS.

SDI's common stock is listed on the OTC Bulletin Board under the symbol "SDEV" and is also listed in Canada on TSXV under the symbol "SDZ.V". The following shows the high and low closing prices for SDI's common stock for the periods indicated:

### OTC Bulletin Board

Three Months Ended	High	Low
February 2012	\$0.39	\$0.11
May 2012	\$0.35	\$0.16
August 2012	\$0.35	\$0.20
November 2012	\$0.99	\$0.20
February 2013	\$0.51	\$0.17
May 2013	\$0.51	\$0.26
August 2013	\$0.46	\$0.32
November 2013	\$0.50	\$0.30

### TSXV\*

Three Months Ended	High	Low
November 2013	CAD\$0.50	CAD\$0.30

\* Trading commenced in the last quarter of 2013.

As of February 18, 2014 SDI had 46,849,285 outstanding shares of common stock.

Holders of common stock are entitled to receive dividends as may be declared by the Board of Directors. SDI's Board of Directors is not restricted from paying any dividends but is not obligated to declare a dividend. No dividends have ever been declared and it is not anticipated that dividends will ever be paid.

SDI's Articles of Incorporation authorize its Board of Directors to issue up to 5,000,000 shares of preferred stock. The provisions in the Articles of Incorporation relating to the preferred stock allow SDI's 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. The issuance of preferred stock with these rights may make the removal of management difficult even if the removal would be considered beneficial to shareholders generally, and will have the effect of limiting shareholder participation in certain transactions such as mergers or tender offers if these transactions are not favoured by SDI's management.

**ITEM 6. SELECTED FINANCIAL DATA**

The selected financial information set forth and the discussion and analysis of financial position and results of operations should be read in conjunction with the audited annual financial statements and related notes for SDI for the fiscal years ended November 30, 2013, 2012 and 2011. Those financial statements have been prepared in accordance with U.S. generally accepted accounting principles. All dollar figures included therein and in the following management discussion and analysis ("MD&A") are expressed in U.S. dollars.

The following is a summary of selected annual financial data for the periods indicated:

<b>Selected Financial Information</b>	<b>Year ended November 30, 2013 (audited)</b>	<b>Year ended November 30, 2012 (audited)</b>	<b>Year ended November 30, 2011 (audited)</b>
Sales	\$30,096	\$Nil	\$Nil
Cost of sales	\$17,379	\$Nil	\$Nil
General and Administrative Expenses	\$1,698,523	\$2,056,996	\$624,545
Research and Product Development Costs (Recovery)	\$Nil	(\$215,143)	\$195,949
Depreciation	\$38,130	\$20,585	\$10,786
Net Loss	(\$2,024,211)	(\$2,019,938)	(\$901,558)
Loss per Share (Basic and Diluted)	(\$0.06)	(\$0.07)	(\$0.03)
Current Assets	\$1,907,872	\$272,171	\$233,455
Total Assets	\$2,060,009	\$417,219	\$251,869
Current Liabilities	\$106,529	\$150,368	\$704,993
Long Term Liabilities	\$Nil	\$1,192,639	\$731,828
Shareholders' Equity (Deficit)	\$1,953,480	(\$925,788)	(\$1184,952)
Retained Earnings (Deficit)	(\$21,320,357)	(\$19,296,146)	(\$17,276,208)
Dividends	\$Nil	\$Nil	\$Nil

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND PLAN OF OPERATION**

This management discussion and analysis ("MD&A") in respect of the fiscal year ended November 30, 2013 includes information from, and should be read in conjunction with, the audited annual financial statements and related notes for SDI for the fiscal year ended November 30, 2013.

### **Comparison of Year Ended November 30, 2013 to Year Ended November 30, 2012**

#### **i. Overview**

The Corporation has \$30,096 of revenue during the year ended November 30, 2013 and we continue to operate at a loss. We expect our operating losses to continue for so long as we remain in a development stage and perhaps thereafter. As of November 30, 2013, we had accumulated losses of \$21,320,357 (November 30, 2012 - \$19,296,146). Our ability to emerge from the development stage and conduct business operations is dependent, in large part, upon our raising additional equity financing.

As described in greater detail below, the Corporation's major financial endeavor over the years has been its effort to raise additional capital to pursue its development activities.

#### **ii. Assets**

Total assets as of November 30, 2013 includes cash and cash equivalent of \$1,842,149, accounts receivable of \$20,351, prepaid expenses and other receivables of \$45,372 and plant and equipment for \$152,137 net of depreciation. Total assets as of November 30, 2012 includes cash of \$232,471, deferred costs of \$32,500, prepaid expenses and other receivables of \$7,200 and plant and equipment for \$145,048 net of depreciation. Total assets increased from \$417,219 on November 30, 2012 to \$2,060,009 on November 30, 2013. This increase is primarily the result of net proceeds from issuance of common stock for \$3,069,700 offset in part by expenses incurred in normal course of business.

#### **iii. Revenues**

Revenue from operations during the year ended November 30, 2013 was \$30,096 as compared to \$Nil during the year ended November 30, 2012.

#### **iv. Net Loss**

The Corporation's expenses are reflected in the Statements of Operation under the category of Operating Expenses. The significant components of expense that have contributed to the total operating expense are discussed as follows:

##### **(a) General and Administration Expense**

General and administration expense represents professional, consulting, office and general and other miscellaneous costs incurred during the years covered by this report.

General and administration expense for the year ended November 30, 2013 was \$1,698,523, as compared with \$2,056,996 for the year ended November 30, 2012. General and administration expense decreased by \$358,473 in the current year, as compared to the prior year. The primary reasons for the change in general and administrative costs are as follows:

During the year ended November 30, 2013 the Company expensed a total of \$296,700 as management fees for payment to its three directors. During the year ended November 30, 2012 the Company expensed a total of \$272,400 as Management fee for payment to its three directors.

The Corporation expensed stock based compensation expense (included in general and administrative expenses) for issue of options and warrants for \$Nil during the year ended November 30, 2013 (\$929,365 in 2012). Stock based compensation expense does not require the use of cash (non-cash expenses), associated with the issuance of options and warrants.

Filing expenses increased by \$84,045 in 2013 as compared to 2012 as the Company obtained a listing of its common stock on TSXV in Canada.

Consulting expenses increased in 2013 as compared to 2012:

Effective January 1, 2013, the Company executed contracts with two consultants to assist the Company with sales initiatives, demos and participate in trade shows on a remuneration of \$7,000 each per month.

Effective November 1, 2013, the Company executed an agreement with a non-related consultant to pay compensation of \$10,000 per month. The consultant has agreed to act as a corporate advisor to assist in the development of strategies and tactics to improve the Company's external communication of its corporate strategy and asset value.

In addition, the Company increased its travel expenses by an additional \$72,233 in 2013 as compared to 2012 primarily to move the business towards production.

(b) Research and Product Development costs

Research and Product Development costs include research costs incurred on the Corporation's less-than-lethal defense technology. Research and Product Development costs for the year ended November 30, 2013 was \$nil, as compared to recovery of (\$215,143) for the year ended November 30, 2012.

On November 30, 2009, the Company entered into a Memorandum of Understanding ("MOU") with its former research and development services contractor Elad Engineering Ltd. ("Elad") to settle their liability. On March 13, 2012, the Company entered into a definitive agreement with Elad to settle the accounts payable. Elad had previously performed services for the development of a less-than-lethal-electric-projectile and blunt impact projectile. At the date of the settlement agreement, the Company owed Elad \$315,143. The Company and Elad agreed to irrevocably waive and release each other from any claim, demand or action in connection with services provided, upon payment of \$100,000 by the Company to Elad no later than March 20, 2012. The \$100,000 payment was made on March 20, 2012. The Company recorded the reduction of the payable in the amount of \$215,143 as recovery of research and development product development cost. This was measured as the difference between the amount payable to Elad and the settlement amount.

v. Quarterly Results

The net loss and comprehensive loss (unaudited) of the Corporation for the quarter ended November 30, 2013 as well as the seven quarterly periods completed immediately prior thereto are set out below:

	For the three months ended November 30, 2013 (\$)	For the three months ended August 31, 2013 (\$)	For the three months ended May 31, 2013 (\$)	For the three months ended February 28, 2013 (\$)	For the three months ended November 30, 2012 (\$)	For the three months ended August 31, 2012 (\$)	For the three months ended May 31, 2012 (\$)	For the three months ended February 29, 2012 (\$)
<b>Revenues</b>	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<b>Net Loss and Comprehensive Loss</b>	(547,206)	(444,595)	(562,762)	(469,648)	(1,068,668)	(350,630)	(348,209)	(252,431)
<b>Loss per Weighted Average Number of Shares Outstanding – Basic and Fully Diluted</b>	(0.02)	(0.01)	(0.02)	(0.01)	(0.04)	(0.01)	(0.01)	(0.01)

Quarterly activities and financial performance are impacted by the Corporation's ability to raise capital for its development activities. The loss during the three months period ended November 30, 2012 includes non-cash stock based compensation expense for \$640,912.

## vi. Liquidity and Capital Resources

The following table summarizes the Corporation's cash flows and cash in hand:

	Year ended November 30, 2013	Year ended November 30, 2012
Cash and cash equivalent	\$ 1,842,149	\$ 232,471
Working capital	\$ 1,801,343	\$ 121,803
Cash used in operating activities	\$ (1,731,957)	\$ (1,294,895)
Cash used in investing activities	\$ (45,219)	\$ (147,219)
Cash provided by financing activities	\$ 3,386,854	\$ 1,559,750

As of November 30, 2013, the Corporation had working capital of \$1,801,343 as compared to working capital of \$121,803 as of November 30, 2012. Working capital increased primarily as a result of capital financing activities during the year ended November 30, 2013 for \$3,069,700 offset in part by expenses incurred in normal course of business.

Net cash used in operations for the year ended November 30, 2013, was \$1,731,957 as compared to \$1,294,895 used for the year ended November 30, 2012. The major components of change relate to:

1) Items not affecting cash:

Stock based compensation of \$nil in 2013, as compared to \$929,365 in 2012.

### November 30, 2012

On January 4, 2012, the board of directors granted options to three directors to acquire a total of 775,000 common shares, one officer to acquire 20,000 common shares and two consultants to acquire a total of 110,000 common shares. The 905,000 options were issued at an exercise price of \$0.13 per share and vest immediately with an expiry term of four years. The Company expensed stock based compensation expense for \$113,292.

On January 4, 2012, the board of directors issued warrants to a Corporation in which the Chief Operating officer has an interest in, to acquire a total of 800,000 common shares. These warrants were issued at an exercise price of \$0.13 per share with an expiry term of four years. The Company expensed stock based compensation cost of \$100,148.

On August 9, 2012, the board of directors issued warrants to a Corporation owned and controlled by a director, to acquire a total of 400,000 common shares. These warrants were issued at an exercise price of \$0.20 per share with an expiry term of four years. The Company expensed stock based compensation cost of \$75,013.

On October 3, 2012, the board of directors issued warrants to a consultant, to acquire a total of 75,000 common shares. These warrants were issued at an exercise price of \$0.42 per share with an expiry term of three years. The Company expensed stock based compensation cost of \$28,911.

On October 3, 2012, the board of directors granted options to two consultants to acquire 100,000 common shares each for a total of 200,000 common shares. The 200,000 options were issued at an exercise price of \$0.42 per share and vest immediately with an expiry term of three years. The Company expensed stock based compensation cost of \$77,096.

On October 26, 2012, the board of directors granted options to one director to acquire a total of 1,000,000 common shares and to another director to acquire 100,000 common shares for a total of 1,100,000 options. These 1,100,000 options were issued at an exercise price of \$0.45 per share and vest immediately with an expiry term of four years. The Company expensed stock based compensation cost of \$534,905.

Recovery of accounts payable for \$(215,143) in 2012 as compared to \$nil in 2013

On November 30, 2009, the Corporation entered into a Memorandum of Understanding (“MOU”) with its former research and development services contractor Elad Engineering Ltd. (“Elad”) to settle their liability. On March 13, 2012, the Corporation entered into a definitive agreement with Elad to settle the accounts payable. Elad had previously performed services for the development of a less-than-lethal-electric-projectile and blunt impact projectile. At the date of the settlement agreement, the Corporation owed Elad \$315,143. The Corporation and Elad agreed to irrevocably waive and release each other from any claim, demand or action in connection with services provided, upon payment of \$100,000 by the Corporation to Elad no later than March 20, 2012. The \$100,000 payment was made on March 20, 2012. The Corporation recorded the reduction of the payable in the amount of \$215,143 as recovery of research and development product development cost. This was measured as the difference between the amount payable to Elad and the settlement amount.

Amortization of debt discount for \$537,488 in 2013 as compared to \$23,141 in 2012

During the year ended November 30, 2013, the Company issued convertible bridge loans along with detachable warrants. The Company evaluated the terms and conditions of the convertible bridge loan and detachable warrants under the guidance of ASC 815. The following table reflects the convertible bridge loan proceeds and amortization of debt discount relating to these loans:

<u>Convertible Bridge Loan Proceeds (\$)</u>	<u>Amortization of debt discount(\$)</u>
199,342	183,514
97,456	67,746
197,355	125,925
147,812	122,942

2) Changes in non- cash balances relating to operations:

The Company’s prepaid expenses and other receivables increased by \$38,172 as compared to a decrease by \$100,504 in 2012. The primary reason for decrease in prepaid expenses and other receivables for 2012 was an amount of \$61,837 advanced to a supplier as a deposit for purchase of injection molds for their BIP40 ammunition rounds in 2011 which was adjusted against the purchase in 2012. During 2012 the company did not have any significant prepaid expense.

Net cash flow from investing activities was an outflow for \$45,219 during the year ended November 30, 2013 as compared to \$ 147,219 for the year ended November 30, 2012. The primary reason was the acquisition of moulds for \$142,140 in 2012 as compared to \$29,750 in 2013.

Net Cash flow from financing activities was an inflow of \$3,386,854 for the year ended November 30, 2013 as compared to an inflow for \$1,559,750 for the year ended November 30, 2012.

On August 27, 2013, the Company completed an initial public offering to raise gross proceeds of \$3,794,280 (CAD \$3,993,980) through the issuance of 9,984,950 Common Shares at a price of \$0.38 (CAD\$0.40) per Common Share (the “Issue Price”). The company incurred expenses of \$724,580 (CAD \$734,565) to raise the capital which included a fee of CAD \$80,000 paid to a former director and CEO in accordance with the terms of an agreement regarding escrow of shares and a cash commission of CAD\$359,458 paid to the Agent.

During the quarter ended November 30, 2013, the holder of bridge loans converted the principal and interest totaling \$378,525 into common shares at CAD\$0.30 per share, resulting in gain on extinguishment of debt for \$33,501.

The Company raised \$910,000 by issue of convertible debentures and \$649,750 by issuance of 2,165,834 common shares during the year ended November 30, 2012.

There was an overall increase in cash of \$1,609,678 in 2013 as compared to an overall increase of \$117,636 during 2012.

## Changes to issued share capital

### Year ended November 30, 2013

During the six month period ended May 31, 2013 the Company issued 1,801,480 common shares for conversion of convertible debentures having face value of \$500,000 and accrued interest of \$40,444. The total debt for \$540,444 was converted into 1,801,480 common shares at \$0.30 per share.

On August 15, 2013, the Company filed an amended and restated final prospectus (the "Prospectus") in Canada, in the provinces of Alberta, British Columbia and Ontario to list its common shares ("Common Shares") on the TSXV.

On August 27, 2013, the Company completed an initial public offering to raise gross proceeds of \$3,794,280 (CAD \$3,993,980) through the issuance of 9,984,950 Common Shares at a price of \$0.38 (CAD\$0.40) per Common Share (the "Issue Price"). The company incurred expenses of \$724,580 (CAD \$734,565) to raise the capital which included a fee of CAD \$80,000 paid to a former director and CEO in accordance with the terms of an agreement regarding escrow of shares and a cash commission of CAD\$359,458 paid to the Agent. In addition the Company granted an option (the "Agent's Option") to purchase up to 898,645 Common Shares to the Agent and members of its selling group. The Agent's Option entitles the Agent and members of its selling group to purchase Common Shares at a price of CAD\$0.40 (US \$0.38) per Common Share until August 27, 2015.

Upon completion of the Offering, \$700,000 face value of convertible debentures along with \$97,716 of interest was converted to 2,297,044 Common Shares, resulting in the discharge of those debentures.

On January 30, 2013, the Company issued a \$199,342 (CAD \$200,000) 6% convertible bridge loan with a term to July 30, 2013 (the "Maturity Date"). In connection with the issuance of the bridge loan, the Company issued detachable warrants to purchase 100,000 shares of the Company's common stock. The warrants have an exercise price of CAD\$0.50 per share and a time to expiration of two years. The relative fair value allocated to warrants and credited to additional paid in capital was \$24,246 (see note 15)

On March 14, 2013, the Company issued a \$97,456 (CAD \$100,000) 6% convertible bridge loan with a term to July 30, 2013 (the "Maturity Date"). In connection with the issuance of the bridge loan, the Company issued detachable warrants to purchase 50,000 shares of the Company's common stock. The warrants have an exercise price of CAD\$0.50 per share and a time to expiration of two years. The relative fair value allocated to warrants and credited to additional paid in capital was \$11,269 (see note 15)

On April 12, 2013, the Company issued a \$197,355 (CAD \$200,000) 6% convertible bridge loan with a term to July 30, 2013 (the "Maturity Date"). In connection with the issuance of the bridge loan, the Company issued detachable warrants to purchase 100,000 shares of the Company's common stock. The warrants have an exercise price of CAD\$0.50 per share and a time to expiration of two years. The relative fair value allocated to warrants and credited to additional paid in capital was \$20,502 (see note 15)

On May 14, 2013, the Company issued a \$147,812 (CAD \$150,000) 6% convertible bridge loan with a term to July 30, 2013 (the "Maturity Date"). In connection with the issuance of the bridge loan, the Company issued detachable warrants to purchase 75,000 shares of the Company's common stock. The warrants have an exercise price of CAD\$0.50 per share and a time to expiration of two years. The relative fair value allocated to warrants and credited to additional paid in capital was \$21,520 (see note 15)

During the quarter ended November 30, 2013, the holder of bridge loans converted the principal and interest totaling \$ 378,525 into common shares at CAD\$0.30 per share, resulting in gain on extinguishment of debt for \$33,501.

### Year ended November 30, 2012

During the three month period ended August 31, 2012, the Company issued 1,484,169 common shares for conversion of convertible debentures having face value of \$411,828 (Convertible debenture 2) and accrued interest of \$33,423. The total debt for \$445,251 was converted into 1,484,169 common shares at \$0.30 per share.

During the three month period ended August 31, 2012, the Company issued 1,333,333 shares of common stock to private investors at a price of \$0.30 per share for a total consideration of \$400,000. The shares of common stock are restricted securities, as that term is defined in Rule 144 of the Securities and Exchange Commission. The Company relied upon the exemption provided by Section 4(2) of the Securities Act of 1933 in connection with the sale of these securities.

During the three month period ended November 30, 2012, the Company issued 994,380 common shares for conversion of convertible debentures having face value of \$146,500 (Convertible debenture 1), accrued interest of \$23,076 and \$35,160 recorded as additional payment common stock. The total for \$204,736 was converted into 994,380 common shares.

During the three month period ended November 30, 2012, the Company issued 832,501 shares of common stock to private investors at a price of \$0.30 per share for a total consideration of \$249,750. The shares of common stock are restricted securities, as that term is defined in Rule 144 of the Securities and Exchange Commission. The Company relied upon the exemption provided by Section 4(2) of the Securities Act of 1933 in connection with the sale of these securities.

### **vii. Off-Balance Sheet Arrangement**

The Company had no off- balance sheet arrangements as of November 30, 2013 and 2012

## **viii. Commitments and Contingencies**

### Commitments

#### a) Consulting agreements:

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

Effective January 1, 2013, SDI executed an agreement with a Company in which a director, Allen Ezer, has an interest in, for a period of two years to pay compensation of \$8,500 per month with a 5% increase on the first anniversary date for services rendered. Either party may terminate the consulting agreement by giving 30 days written notice.

Agreement with the Chief Executive Officer Greg Sullivan to pay compensation of \$12,000 per month, with an annual 5% increase and a car allowance of \$600 per month. The agreement expires December 31, 2016. The monthly remuneration will increase with accomplishment of milestones. The agreement may be terminated with mutual consent or by the Chief Executive Officer giving three weeks' notice.

Effective October 4, 2012, SDI executed an agreement with a Company in which the Chief Operating Officer Dean Thrasher has an interest in, for a period of two years which expires on September 30, 2014 for services rendered. The total consulting fees are estimated at \$480,000 for the two year period. SDI expensed \$240,000 during the year ended November 30, 2013. The Company may also accept common shares at \$0.45 per common share in lieu of cash. As of November 30, 2013, the Company has not exercised its right to accept this compensation in shares.

Effective January 1, 2013, SDI executed an agreement with a non-related consultant to pay compensation of \$7,000 per month. The consultant is to assist with sales initiatives, demos and participate in trade shows. The agreement is for a period of one year. Either party may terminate the consulting agreement by giving 30 days written notice.

Effective January 1, 2013, SDI executed an agreement with a non-related consultant to pay compensation of \$7,000 per month. The consultant is to assist with sales initiatives, demos and participate in trade shows. The agreement is for a period of one year. Either party may terminate the consulting agreement by giving 30 days written notice.

Effective November 1, 2013, SDI executed an agreement with a non-related consultant to pay compensation of \$10,000 per month. The consultant has agreed to act as a corporate advisor to assist in the development of strategies and tactics to improve the Company's external communication of its corporate strategy and asset value. The agreement is for a period of six months. Either party may terminate the consulting agreement by giving 15 days written notice.

Effective November 1, 2013, SDI executed an agreement with a non-related consultant to pay compensation of \$5,000 per month. The consultant has agreed to provide corporate markets advisory services. The agreement is for a period of a minimum of three months and will continue unless otherwise terminated by either party by giving 30 days written notice.

b) The Company has commitments for leasing office premises in Oakville, Ontario, Canada to April 30, 2018 at a rent of Canadian \$6,399 per month.

c) The Company has commitments for leasing office premises in Tampa, Florida, USA to June 30, 2014 at a rent of \$1,418 per month.

### Contingencies

In November of 2013, a former officer filed a suit against the Company in the Ontario Superior Court of Justice (Province of Ontario) seeking, among other things, \$60,000 in damages for wrongful dismissal, damages of \$35,000 on account of vacation pay and damages to be determined for out of pocket expenses, breach of contract, unjust enrichment and loss of business opportunity. Management of the Company believes this suit is without merit and the Company intends to vigorously defend against the suit and as such no provision for any potential payment has been expensed.

Exclusive sales and supply agreements:

a) Sales Agreement

SDI entered into an agreement (the "Teaming Agreement") dated November 30, 2011 with Chemring Ordnance, Inc. ("Chemring") pursuant to which both agreed to establish a co-operative and supportive team to develop the best marketing, management and technical approach for the worldwide manufacture and sale of 40mm less than lethal trauma ammunition. The Teaming Agreement provides for SDI and Chemring to create a team for the purpose of preparing competitive, cost effective proposals in response to requests for proposals and obtaining and performing any contracts that result therefrom.

Pursuant to the Teaming Agreement, if a contract is awarded, each of SDI and Chemring will perform the work to be done by it as specified in the Teaming Agreement and will share the revenue as set out in the Teaming Agreement. Either party who initiated the proposal that led to the contract will be the prime contact for that customer. Upon a contract being awarded to either SDI or Chemring, it will subcontract with the other for the other's share of the work. In accordance with the Teaming Agreement, the BIP ammunition sold will have Chemring's branding unless otherwise agreed by the parties.

The Teaming Agreement will terminate on December 20, 2016. The Teaming Agreement may also expire if a time period of two years from the effective date of the agreement passes without a bona fide arms length contract being executed and delivered with respect to BIP ammunition. It will also terminate if either party is in material breach of the Agreement or a subcontract that hasn't been resolved, if any required governmental licenses or approvals or permits are revoked, in the event of a debarment or suspension of a party at the option of the other party, and by the mutual written agreement of the parties.

b) Supply agreement

The Company entered into a Development, Supply and Manufacturing Agreement with the BIP Manufacturer on July 25, 2012. This Agreement provides the Company to order and purchase only from the BIP Manufacturer certain 40MM assemblies and components for use by the Company to produce less-lethal and training projectiles as described in the Agreement. The Agreement is for a term of five years with an automatic extension for an additional year if neither party has given written notice of termination prior to the end of the five year period.

**ix. Subsequent Events**

- a) Subsequent to the year end, on February 3, 2014, the Company incorporated a 100% owned subsidiary in Canada named "Security Devices International Canada Corp"
- b) The Company's relationship with Chemring {note 12(a)} will now be focused more on marketing the products to the Company's global sales channels".

**x. Critical Accounting Policies**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements, the reported amount of revenues and expenses during the reporting period and related disclosure of contingent assets and liabilities. These estimates are based on our best knowledge of current events and actions the Corporation may undertake in the future. On an ongoing basis, we evaluate our estimates and judgments. To the extent actual results differ from those estimates; our future results of operations may be affected.

## Recent Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11 (ASU 2011-11), *Disclosures about Offsetting Assets and Liabilities*, which requires certain additional disclosure requirements about financial instruments and derivatives instruments that are subject to netting arrangements. The new disclosures are required for annual reporting periods beginning on or after January 1, 2013, and interim periods within those periods. The adoption of this update did not have an impact on the financial statements of the Company.

In August 2012, the FASB issued ASU 2012-03, *Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (SAB) No. 114, Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22 (SEC Update)* in Accounting Standards Update No. 2012-03. This update amends various SEC paragraphs pursuant to the issuance of SAB No. 114. The adoption of ASU 2012-03 is not expected to have a material impact on the financial position or results of operations.

In October 2012, the FASB issued Accounting Standards Update (ASU) 2012-04, *Technical Corrections and Improvements* in Accounting Standards Update No. 2012-04. The amendments in this update cover a wide range of topics in the Accounting Standards Codification. These amendments include technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. The amendments in this update will be effective for fiscal periods beginning after December 15, 2012. The adoption of ASU 2012-04 is not expected to have a material impact on the financial position or results of operations.

In February 2013, the FASB issued ASU No. 2013-04, *"Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date."* This ASU addresses the recognition, measurement, and disclosure of certain obligations resulting from joint and several arrangements including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. This ASU is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company is currently assessing the impact of this guidance.

In March 2013, the FASB issued ASU No. 2013-05, *"Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity."* This ASU addresses the accounting for the cumulative translation adjustment when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The guidance outlines the events when cumulative translation adjustments should be released into net income and is intended by FASB to eliminate some disparity in current accounting practice. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company is currently assessing the impact of this guidance.

In July 2013, the FASB issued 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry forward, a Similar Tax Loss, or a Tax Credit Carry forward Exists* (ASU 2013-11), which requires entities to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss ("NOL") or tax credit carry forward whenever the NOL or tax credit carry forward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. This accounting standard update requires entities to assess whether to net the unrecognized tax benefit with a deferred tax asset as of the reporting date. This guidance is effective for fiscal years beginning after December 15, 2013, with early adoption permitted. The Company is currently assessing the impact of this guidance.

## **Risk Factors**

### **Additional Financing**

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

### **General Venture Company Risks**

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

### **Uncertainty of Revenue Growth**

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

### **Dependence on Management and Key Personnel**

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

### **Dependence on Key Suppliers**

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

### **Product Liability**

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

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

### **Strategic Alliances**

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

### **Marketing and Distribution Capabilities**

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

### **Rapid Technological Development**

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

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

### **Competition**

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

## **Regulation**

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

## **Intellectual Property**

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

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

## **Infringement of Intellectual Property Rights**

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

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

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

## **Health and Safety**

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

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

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

## **Insurance and Uninsured Risks**

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

## **Conflicts of Interest**

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

**Dividend Policy**

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

**Lack of Active Market**

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

**Market Price of Common Shares**

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

**Political Regulatory Risks**

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

**Dividends**

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

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

Not applicable.

**ITEM 8. FINANCIAL STATEMENTS**

See the financial statements included with this report.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS.**

None

## **ITEM 9A. CONTROLS AND PROCEDURES**

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 November 30, 2013, 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, our chief executive officer and chief financial officer concluded that as of November 30, 2013, our disclosure controls and procedures were not effective due to a material weakness in our internal control over financial reporting disclosed below.

### **Management's Report on Internal Control Over Financial Reporting**

SDI's management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of SDI's principal executive officer and principal financial officer and implemented by SDI's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of SDI's financial statements in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

SDI's management evaluated the effectiveness of its internal control over financial reporting as of November 30, 2013 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or the COSO Framework. Management's assessment included an evaluation of the design of SDI's internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on that evaluation, our management concluded that our internal controls over financial reporting as of November 30, 2013 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, during the fiscal year 2013, 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;
- We have a Chief Financial Officer who has knowledge of, and experience regarding, U.S. GAAP and SEC reporting requirements.

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

There was no change in SDI's internal control over financial reporting that occurred during the year ended November 30, 2013 that has materially affected, or is reasonably likely to materially affect, SDI's internal control over financial reporting.

## **ITEM 9B. OTHER INFORMATION**

Not applicable.

## **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS**

<u>Name</u>	<u>Age</u>	<u>Position</u>
Gregory Sullivan	49	President, Principal Executive Officer and a Director
Dean Thrasher (1)	50	Director, Secretary and Chief Operating Officer
Rakesh Malhotra	57	Principal Financial and Accounting Officer
Allen Ezer (2)	37	Director
Duane Parnham (3)	50	Director
David Goodbrand (3)	42	Director

(1) Appointed as a director on November 26, 2013.

(1) Appointed as a director on January 3, 2012.

(2) Appointed as a director on October 26, 2012

The directors of SDI serve until the first annual meeting of its shareholders and until their successors have been duly elected and qualified. The officers serve at the discretion of SDI's directors.

**Gregory Sullivan** has been a director of SDI since April 2005. On May 30, 2010 Mr. Sullivan was appointed SDI's President and Principal Executive Officer. Mr. Sullivan has been a law enforcement officer for the past 20 years. During his law enforcement career, Mr. Sullivan has trained with federal, state and municipal agencies in the United States, Canada and the Caribbean and has gained extensive experience in the use of lethal and non-lethal weapons. Mr. Sullivan has also trained personnel employed by both public and private agencies in the use of force and firearms. Mr. Sullivan served four years with the military reserves in Canada.

**Dean Thrasher** has been the COO of SDI since October 2010. Mr. Thrasher is a senior executive with more than twenty five years of start-up business management skills, mergers & acquisitions, product launches, product development, and funding experience in the technology, wholesale, manufacturing, distribution, retail and franchise sectors, as well as extensive international business and public market experience. Mr. Thrasher has been self-employed in the investment-banking sector dating from December 2007 to present; Executive Vice President of Mint Technology Corp. (TSXV pre-paid credit cards) July 2002 to December 2007; and President, ecwebworks Inc. (e-commerce) from June 1999 to July 2002.

**Rakesh Malhotra** has been SDI's Chief Financial Officer since January 7, 2007. Mr. Malhotra is a United States Certified Public Accountant (CPA) and a Canadian Chartered Accountant (CA). Mr. Malhotra graduated with Bachelor of Commerce (Honors) degree from the University of Delhi (India) and has served as CFO and consultant to various public Companies in USA and Canada.

**Allen Ezer** has held various positions with the Corporation since January 2012, including, director, Vice President of Corporate Development and Executive Vice-President of the Corporation. Mr. Ezer has been a director with Goldspike Exploration (TSXV mineral exploration corporation) since May 2012, as well as Cambrian Corp. (junior exploration); CIBC Wood Gundy November 2002 to December 2011, associate investment advisor.

**Duane Parnham** has served as a director of SDI since October 2012. Mr. Parnham served as a director, CEO and Chairman, Executive Director, Business Development with Forsys Metals Corp. (TSX exploration company) for various periods from November 2004 to May 2010; Chairman with UNX Energy Corp. (TSXV exploration company) October 2007 to April 2011; Chairman with Nebu Resources Inc. (TSXV exploration company) December 2009 to October 2010; Director with Angus Mining (Namibia) Inc. (TSXV exploration company) September 2010 to October 2011; Director with IC Potash Corp. (TSX exploration company) July 2011 to May 2012; Director and Executive Chairman with Giyani Gold Corp. (TSXV exploration company) November 2010 to present.

**David Goodbrand** has served as a director for the Corporation since October 2012. Mr. Goodbrand is currently a police sergeant and has served in this capacity from September 1994 to present.

SDI does not have a compensation committee. The Board of Directors is responsible for the compensation program for the Corporation's Named Executive Officers.

Rakesh Malhotra is SDI's financial expert. However, since he is an officer of SDI, Mr. Malhotra is not independent as that term is defined in 803 of the NYSE AMEX Company Guide.

SDI believes its directors are qualified to act as such due to their experience in the law enforcement or weapons industries and their general business backgrounds.

## ITEM 11. EXECUTIVE COMPENSATION

For the most recently completed financial year ended November 30, 2013, the Corporation's named executive officers were Gregory Sullivan (CEO), Rakesh Malhotra (CFO) and Dean Thrasher (COO). Specific aspects of compensation payable to the named executive officers of the Corporation are dealt with in further detail in subsequent tables.

The following table sets forth all annual and long term compensation for services in all capacities to the Corporation for the Corporation's most recently completed financial years in respect of the Named Executive Officers. Summary Compensation Table

Name and Principal Position	Year ended Nov. 30	Salary (\$)	Share-Based Awards (\$)	Option-Based Awards <sup>(1)</sup> (\$)	Non-Equity Incentive Plan Compensation		Pension Value (\$)	All Other Compensation (5) (\$)	Total Compensation (\$)
					Annual Incentive Plan	Long-Term Incentive Plans			
Gregory Sullivan CEO <sup>(2)</sup>	2013	0	0	0	0	0	0	158,400	158,400
	2012	0	0	50,074	0	0	0	144,000	194,074
	2011	0	0	0	0	0	0	39,500	39,500
Rakesh Malhotra CFO <sup>(3)</sup>	2013	0	0	0	0	0	0	58,530	58,530
	2012	0	0	2,504	0	0	0	35,300	37,804
	2011	0	0	0	0	0	0	23,808	23,808
Dean Thrasher COO <sup>(4)</sup>	2013	0	0	0	0	0	0	120,000	120,000
	2012	0	0	50,074	0	0	0	120,000	170,074
	2011	0	0	0	0	0	0	99,000	99,000

Note:

- (1) These options/warrants have been valued using Black-Scholes methodology. The following assumptions were made for purposes of calculating the value of options/warrants based awards: an expected option term of 4 years to exercise for 2012 awards; a projected dividend of zero; projected stock price volatility of 206.87% for 2012 awards and a risk-free interest rate of 2% for 2012 awards.

The actual value realized, if any, on option/warrant exercises will be dependent on overall market conditions and the future performance of the Corporation and its Common Shares.

- (2) Prior to entering into an agreement with the Corporation as CEO, Mr. Sullivan was a director of the Corporation. His directorship dates back to 2005. On May 30, 2010, Mr. Gregory Sullivan was appointed the CEO of the Corporation. Effective January 2012, Mr. Sullivan was contracted with the Corporation for a period of 60 months. Mr. Sullivan is to earn \$12,000 per month for his services, along with a 5% annual salary increase. In fiscal 2012, Mr. Sullivan was issued 400,000 compensation warrants (exercisable at \$0.13 until January 4, 2016). During 2013, 50,000 warrants as an incentive were issued for providing a working capital loan of \$96,700 (CAD \$100,000). Mr. Sullivan is also given a \$600 monthly car allowance through his employment agreement with the Corporation effective January 2012.
- (3) For services, Mr. Malhotra was issued 20,000 warrants on January 4, 2012 (exercisable at \$0.13 until January 4, 2016), and the balance was paid in cash for services rendered. Mr. Malhotra is the CFO of the Corporation, and works on an hourly basis.
- (4) For the fiscal year 2011, Mr. Thrasher was contracted and paid directly by the Corporation. Subsequently, Mr. Thrasher was contracted through Level 4 Capital Corp. for services rendered to the Corporation. Level 4 Capital Corp., a company in which Mr. Thrasher owns a 50% interest, was issued 800,000 compensation warrants on January 4, 2012 (exercisable at \$0.13 until January 4, 2016). Of the 800,000 compensation warrants, Mr. Thrasher is entitled to 50%. See "Employment/Consulting Agreements".
- (5) Amount represents consulting fees expensed during the year.

## Incentive Plan Awards

### Outstanding Share-Based Awards and Option/Warrants-Based Awards

The following table summarizes all share-based and option/warrants-based awards granted by the Corporation to its Named Executive Officers, which are outstanding as of November 30, 2013.

Name	Number of securities underlying unexercised options/warrants (#)	Option exercise price (\$)	Option/Warrant expiration date
Gregory Sullivan	50,000 <sup>(2)</sup>	\$0.47	03-14-2015
	400,000 <sup>(2)</sup>	\$0.13	01-04-2016
	397,000 <sup>(2)</sup>	\$0.20	10-01-2015
	50,000 <sup>(2)</sup>	\$0.25	10-05-2014
Rakesh Malhotra	20,000 <sup>(2)</sup>	\$0.13	01-04-2016
	175,000 <sup>(2)</sup>	\$0.20	10-01-2015
	125,000 <sup>(1)</sup>	\$0.25	06-30-2014
Dean Thrasher <sup>(3)</sup>	400,000 <sup>(2)</sup>	\$0.13	01-04-2016

Notes:

<sup>(1)</sup> These are compensation options issued to the named executive officer

<sup>(2)</sup> These are compensation warrants issued to the named executive officers.

<sup>(3)</sup> Level 4 Capital Corp., a company in which Mr. Thrasher owns a 50% interest, was issued 800,000 compensation warrants on January 4, 2012 (exercisable at \$0.13 until January 4, 2016). Of the 800,000 compensation warrants, Mr. Thrasher is entitled to 50%.

### Pension Plan Benefits and Defined Contribution Plans

The Corporation does not have a pension plan or defined benefit plan that provides for payments or benefits to the Named Executive Officers at, following, or in connection with retirement.

### Employment/Consulting Contracts

1. The Corporation has entered into an employment agreement with Gregory Sullivan, dated November 21, 2011, the Corporation's Chief Executive Officer for a 5-year term commencing January 1, 2012. Mr. Sullivan's remuneration is \$12,000 per month with a 5% annual increase, and a \$600 per month car allowance. The agreement has the following terms.

- (a) The agreement will automatically renew upon the expiry of each one-year term of the agreement, unless otherwise terminated in accordance with the agreement.
- (b) The employment agreement may be terminated with mutual consent or Mr. Sullivan giving 3 weeks notice.
- (c) The Corporation may terminate the agreement without any notice or pay in lieu of notice, if Mr. Sullivan breaches his employment agreement or the Corporation otherwise has just cause to terminate his employment;
- (d) If Mr. Sullivan has not breached his employment contract or the Corporation does not have just cause to end his employment upon termination of his employment contract, the Corporation shall provide Mr. Sullivan with two-and-a-half times his then annual remuneration and by continuing his then benefits coverage for a period of two-and-a-half years. If a change in control of the Corporation occurs, the Corporation shall pay Mr. Sullivan two times his then remuneration.

2. The Corporation has entered into a consulting agreement effective January 1, 2013 for a two-year period with Lumina Global Partners Inc. ("Lumina"), Lumina is a corporation controlled by Allen Ezer. Lumina's remuneration is \$8,500 per month, with a 5% increase on the first anniversary date. The agreement has the following terms.

- (a) The agreement shall be terminated once all services have been completed by Lumina.
- (b) Either party may terminate the consulting agreement with 30 days written notice.
- (c) All services provided by Lumina shall be invoiced up to the termination date.

3. The Corporation has entered into a consulting agreement effective October 4, 2012 with Level 4 Capital Corp. ("L4"), and ending September 30, 2014. L4's remuneration is \$20,000 per month. At the discretion of L4, it may take remuneration in the form of cash or in Common Shares at a price of \$0.45 per share. L4 is a corporation 50% owned by Dean Thrasher. The agreement has the following terms.

- (a) The agreement shall be terminated once all services have been completed by L4. Services include; guiding the Corporation's manufacturer through all new product development, completing the public Offering with securities commissions in Canada and the US, working with US and Canadian counsel in all aspects, go to market strategy, budgeting, and logistics of the products.
- (b) Upon a change in control of L4, the Corporation has the right to terminate this agreement with 90 days notice. If a change of control of SDI occurs, the Corporation shall pay L4 twenty-four months of fees.
- (c) Either party may terminate the consulting agreement with mutual written consent.
- (d) All services provided by L4 shall be invoiced up to the termination date.

#### **Termination and Change of Control Benefits**

Other than as noted above, the Corporation has no compensatory plan or arrangement with respect to the Named Executive Officers that results or will result from the resignation, retirement or any other termination of employment of any such officer's employment with the Corporation, from a change of control of the Corporation or a change in the responsibilities of a Named Executive Officer following a change in control.

#### **Compensation of Directors**

The compensation of the independent directors of the Corporation is yet to be determined. Non-independent directors are not entitled to receive directors' fees from the Corporation. All directors are reimbursed by the Corporation for travel and other out-of-pocket expenses incurred in attending directors and shareholders meetings and meetings of Board committees. All directors of the Corporation benefit from the Corporation's directors and officers liability insurance.

Compensation of Directors during Year Ended November 30, 2013 and November 30, 2012.

Year ended November 30, 2013:

Name	Paid/Payable in Cash (1)	Stock Awards (2)	Awards of Options or Warrants (3)
Boaz Dor (1)	\$ 45,000	--	-
Gregory Sullivan	\$ 158,400	--	-
Allen Ezer	\$ 100,500	--	-

(1) Boaz Dor resigned in year 2013

(2) Excludes Dean Thrasher who was appointed director on November 26, 2013

Year ended November 30, 2012:

Name	Paid/Payable in Cash (1)	Stock Awards (2)	Awards of Options or Warrants (3)
Boaz Dor	\$ 58,000	--	15,648
Gregory Sullivan	\$ 144,000	--	50,074
Allen Ezer	\$ 77,000	--	106,309
Duane Parnham	\$	--	486,277
David Goodbrand	\$	--	48,628

(1) Represents consulting fees paid/payable during the year

(2) The fair value of stock issued for services computed in accordance with ASC 718 on the date of grant.

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

Stock Option and Bonus Plans

SDI has adopted stock option and stock bonus plans. A summary description of these plans follows. In some cases these Plans are collectively referred to as the "Plans".

Incentive Stock Option Plan. SDI's Incentive Stock Option Plan authorizes the issuance of shares of SDI's Common Stock to persons that exercise options granted pursuant to the Plan. Only SDI employees may be granted options pursuant to the Incentive Stock Option Plan. The option exercise price is determined by SDI's directors but cannot be less than the market price of SDI's common stock on the date the option is granted.

Non-Qualified Stock Option Plan. SDI's Non-Qualified Stock Option Plan authorizes the issuance of shares of SDI's Common Stock to persons that exercise options granted pursuant to the Plans. SDI's employees, directors, officers, consultants and advisors are eligible to be granted options pursuant to the Plans, provided however that bona fide services must be rendered by such consultants or advisors and such services must not be in connection with the offer or sale of securities in a capital-raising transaction.

Stock Bonus Plan. SDI's Stock Bonus Plan allows for the issuance of shares of common stock to its employees, directors, officers, consultants and advisors. However bona fide services must be rendered by the consultants or advisors and such services must not be in connection with the offer or sale of securities in a capital-raising transaction.

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

The following tables show all options exercised by SDI's current officers and directors since the inception of SDI and through November 30, 2013, and the options held by the officers and directors named below.

Name	Options Exercised					
	Grant	Options	Exercise	Expiration	Shares	Value
	Date	Granted (#)	Price	Date	Acquired on Exercise (1)	Realized (2)
Gregory Sullivan	10/29/05	200,000	\$ 0.10	10/29/11	200,000	\$ 100,000
Boaz Dor	10/29/05	200,000	\$ 0.10	10/29/11	200,000	\$ 100,000
Boaz Dor	01/24/08	117,000	\$ 0.10	01/24/13	117,000	\$ 25,740

- (1) The number of shares received upon exercise of options.  
(2) With respect to options exercised, the dollar value of the difference between the option exercise price and the market value of the option shares purchased on the date of the exercise of the options.

Name	Shares underlying unexercised options which are:		Exercise Price	Expiration Date
	Exercisable	Unexercisable		
	Rakesh Malhotra	125,000		
Duane Parnham	1,000,000	--	0.45	10-25-2016
David Goodbrand	100,000	--	0.45	10-25-2016

- (1) On June 17, 2009, SDI's directors approved the reduction of the exercise price of these options to \$0.25 per share.  
(2) On December 4, 2009 SDI's directors extended the expiration date of these options to June 30, 2014.

For the purpose of these options "Cause" means any action by the Option Holder or any inaction by the Option Holder which constitutes:

- (i) fraud, embezzlement, misappropriation, dishonesty or breach of trust;  
(ii) a willful or knowing failure or refusal by the Option Holder to perform any or all of his material duties and responsibilities as an officer of SDI, other than as the result of the Option Holder's death or Disability; or  
(iii) gross negligence by the Option Holder in the performance of any or all of his material duties and responsibilities as an officer of SDI, other than as a result of the Option Holder's death or Disability;

For purposes of these options "Disability" means any mental or physical illness, condition, disability or incapacity which prevents the Option Holder from reasonably discharging his duties and responsibilities as an officer of SDI for a minimum of twenty hours per week.

In addition to the options described above, SDI has as of November 30, 2013, granted warrants to its officers and directors upon the terms shown below.

<b>Name</b>	<b>Date of Issue</b>	<b>Number of Warrants</b>	<b>Exercise Price US\$</b>	<b>Expiry Date</b>
Greg Sullivan	03-14-2013	50,000	\$0.47	03-14-2015
Greg Sullivan	01-04-2012	400,000	\$0.13	01-04-2016
Boaz Dor	01-04-2012	125,000	\$0.13	01-04-2016
Allen Ezer	01-04-2012	250,000	\$0.13	01-04-2016
Rakesh Malhotra	01-04-2012	20,000	\$0.13	01-04-2016
Dean Thrasher <sup>(2)</sup>	01-04-2012	800,000	\$0.13	01-04-2016
Allen Ezer <sup>(1)</sup>	08-09-2012	400,000	\$0.20	08-09-2016

Notes

- (1) Warrants were issued to Lumina Global Partners Inc., a company controlled by Mr. Allen Ezer.
- (2) Warrants were issued to Level 4 Capital Corp., a company in which Dean Thrasher has a 50% interest.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS**

The following table shows the ownership of SDI's common stock as of February 18, 2014 by each shareholder known by SDI to be the beneficial owner of more than 5% of SDI's outstanding shares, each director and executive officer and all directors and executive officers as a group. Except as otherwise indicated, each shareholder has sole voting and investment power with respect to the shares they beneficially own.

<u>Name</u>	<u>Number of Shares (1)</u>	<u>Percent of Class</u>
Gregory Sullivan	970,000	2.1%
Dean Thrasher (2)	900,000	1.9%
Allen Ezer	60,000	0.1%
Duane Parnham	950,000	2.0%
David Goodman	88,000	0.2%
Alpha North Asset Management	4,974,378	10.6%
All Officers and Directors as a group	2,968,000	6.3%

(1) Does not reflect shares issuable upon the exercise of options.

(2) Dean Thrasher is contracted through Level 4 Capital Corp. Fifty percent of the 1,800,000 Common Shares owned by Level 4 Capital Corp. are beneficially owned by Mr. Thrasher.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.**

None.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Schwartz Levitsky Feldman, LLP (“Schwartz Levitsky”) audited SDI’s financial statements for the years ended November 30, 2013 and 2012.

The following table shows the aggregate fees billed and billable to SDI during these years by Schwartz Levitsky.

	<u>2013</u>	<u>2012</u>
Audit Fees	\$ 20,000	\$ 20,000
Audit-Related Fees	\$ 16,500	\$ 16,500
Financial Information Systems	--	--
Design and Implementation Fees	--	--
Tax Fees	--	--
All Other Fees	24,000	--

Audit fees represent amounts billed for professional services rendered for the audit of SDI’s annual financial statements. Audit-Related fees represent amounts billed for the services related to the reviews of SDI’s 10-Q reports. All other fees represent amounts billed for services relating to filing of prospectus/S-1 in Canada and USA. Before Schwartz Levitsky was engaged by Security Devices to render audit services, the engagement was approved by Security Device’s Directors.

**ITEM 15. EXHIBITS**

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
<a href="#">31.1</a>	<a href="#">Rule 13a-14(a) Certifications *</a>
<a href="#">31.2</a>	<a href="#">Rule 13a-14(a) Certifications *</a>
<a href="#">32</a>	<a href="#">Section 1350 Certifications *</a>

\* Filed with this report.

**SECURITY DEVICES INTERNATIONAL, INC.**  
**(A Development Stage Enterprise)**

**FINANCIAL STATEMENTS**

**YEARS ENDED NOVEMBER 30, 2013 AND 2012**

**Together with Report of Independent Registered Public Accounting Firm**

**(Amounts expressed in US Dollars)**

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SECURITY DEVICES INTERNATIONAL, INC.  
(A Development Stage Enterprise)

FINANCIAL STATEMENTS

YEARS ENDED NOVEMBER 30, 2013 AND 2012  
(Amounts expressed in US Dollars)

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of  
Security Devices International, Inc.  
(A Development Stage Enterprise)

We have audited the accompanying balance sheets of Security Devices International, Inc. (the "Company") as of November 30, 2013 and 2012, and the related statements of operations and comprehensive loss, cash flows and changes in stockholders' equity (deficit) for the years ended November 30, 2013 and 2012 and the period from inception (March 1, 2005) to November 30, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of November 30, 2013 and 2012, and the results of its operations and its cash flows for the years ended November 30, 2013 and 2012 and the period from inception (March 1, 2005) to November 30, 2013, in accordance with generally accepted accounting principles in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 2 to the financial statements, the Company has limited revenues and expects to continue to incur significant expenses from operations. The Company's future success is dependent upon its ability to raise sufficient capital, not only to cover its operating expenses, but also to continue to develop and be able to profitably market its products. Those factors raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**"SCHWARTZ LEVITSKY FELDMAN LLP"**

Toronto, Ontario, Canada  
March 14, 2014

Chartered Accountants  
Licensed Public Accountants

2300 Yonge Street, Suite 1500, Box 2434  
Toronto, Ontario M4P 1E4  
Tel: 416 785 5353  
Fax: 416 785 5663

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**SECURITY DEVICES INTERNATIONAL, INC.**  
**(A Development Stage Enterprise)**  
**Balance Sheets**  
**As at November 30, 2013 and 2012**  
**(Amounts expressed in US Dollars)**

	2013 \$	2012 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalent	1,842,149	232,471
Accounts Receivable	20,351	-
Deferred costs (Note 17)	-	32,500
Prepaid expenses and other receivables	45,372	7,200
Total Current Assets	1,907,872	272,171
Plant and Equipment (Note 9)	152,137	145,048
<b>TOTAL ASSETS</b>	<b>2,060,009</b>	<b>417,219</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 4)	106,529	150,368
Total Current Liabilities	106,529	150,368
Convertible Debentures (Note 14)	-	1,192,639
Total Liabilities	106,529	1,343,007
Going Concern (Note 2)		
Related Party Transactions (Note 8)		
Commitments and Contingencies (Note 11)		
Subsequent Events (Note 18)		
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Capital Stock (Note 5)		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, Nil issued and outstanding (2012 - nil). The provisions in the Articles of Incorporation 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 Company's common stock.		
Common stock, \$0.001 par value 100,000,000 shares authorized (2012: 50,000,000), 46,849,285 issued and outstanding (2012:31,472,433)	46,849	31,472
Additional Paid-In Capital	23,226,988	18,338,886
Deficit Accumulated During the Development Stage	(21,320,357)	(19,296,146)
Total Stockholders' Equity (Deficit)	1,953,480	(925,788)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>2,060,009</b>	<b>417,219</b>

The accompanying notes are an integral part of these financial statements.

SECURITY DEVICES INTERNATIONAL, INC.  
(A Development Stage Enterprise)  
Statements of Operations and Comprehensive loss  
Years Ended November 30, 2013 and 2012 and the Period from Inception (March 1, 2005) to  
November 30, 2013  
(Amounts expressed in US Dollars)

	Cumulative since inception \$	2013 \$	2012 \$
SALES	30,096	30,096	-
COST OF SALES	(17,379)	(17,379)	-
GROSS PROFIT	12,717	12,717	-
EXPENSES:			
Research and Product Development cost (recovery)	7,473,781	-	(215,143)
Depreciation	99,074	38,130	20,585
General and administration	13,504,760	1,698,523	2,056,996
TOTAL OPERATING EXPENSES	21,077,615	1,736,653	1,862,438
LOSS FROM OPERATIONS	(21,064,898)	(1,723,936)	(1,862,438)
Other expense-Interest	(879,280)	(651,502)	(157,500)
Other Income-Derivative financial instrument (Note 16)	349,532	349,532	-
Other Income-Interest	274,289	1,695	-
LOSS BEFORE INCOME TAXES	(21,320,357)	(2,024,211)	(2,019,938)
Income taxes (Note 10)	-	-	-
NET LOSS AND COMPREHENSIVE LOSS	(21,320,357)	(2,024,211)	(2,019,938)
Loss per share – basic and diluted		(0.06)	(0.07)
Weighted average number of common shares outstanding during the year		36,565,840	27,956,359

The accompanying notes are an integral part of these financial statements.

SECURITY DEVICES INTERNATIONAL, INC.  
(A Development Stage Enterprise)  
Statements of Cash Flows  
Years Ended November 30, 2013 and 2012 and the Period from Inception (March 1, 2005) to  
November 30, 2013  
(Amounts expressed in US Dollars)

	Cumulative Since inception	2013	2012
	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss for the period/year	(21,320,357)	(2,024,211)	(2,019,938)
Items not requiring an outlay of cash:			
Issue of shares for services	584,500	-	-
Fair value of options and warrants (included in general and administration expenses)	6,485,771	-	929,365
Recovery of accounts payable	(215,143)	-	(215,143)
Loss on cancellation of common stock	34,400	-	-
Depreciation	99,074	38,130	20,585
Interest on convertible debt converted to stock	79,752	79,752	-
Amortization of debt discount	579,427	537,488	23,141
Amortization of deferred financing cost	35,160	-	10,916
Gain on extinguishment of debt included in general and administration expenses (Note 15)	(33,501)	(33,501)	-
Derivative financial instrument	(349,532)	(349,532)	-
Changes in non-cash working capital:			
Accounts receivable	(20,351)	(20,351)	-
Prepaid expenses and other receivables	(45,372)	(38,172)	100,504
Deferred costs	-	32,500	(32,500)
Accounts payable and accrued liabilities*	467,950	45,940	(111,825)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(13,618,222)</b>	<b>(1,731,957)</b>	<b>(1,294,895)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of Plant and Equipment	(251,211)	(45,219)	(147,219)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(251,211)</b>	<b>(45,219)</b>	<b>(147,219)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net Proceeds from issuance of common stock	13,538,600	3,069,700	649,750
Proceeds from convertible debentures converted to common stock	1,788,328	-	910,000
Repayment of convertible debentures	(30,000)	(30,000)	-
Proceeds from bridge loans	641,965	641,965	-
Repayment of bridge loans	(294,811)	(294,811)	-
Cancellation of common stock	(50,000)	-	-
Exercise of stock options	117,500	-	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>15,711,582</b>	<b>3,386,854</b>	<b>1,559,750</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR THE YEAR</b>	<b>1,842,149</b>	<b>1,609,678</b>	<b>117,636</b>
Cash and cash equivalent , beginning of Year	-	232,471	114,835
<b>CASH AND CASH EQUIVALENT END OF YEAR</b>	<b>1,842,149</b>	<b>1,842,149</b>	<b>232,471</b>
<b>SUPPLEMENTAL INFORMATION:</b>			
INCOME TAXES PAID	-	-	-
INTEREST PAID	39,545	39,545	-

The accompanying notes are an integral part of these financial statements.

\*Excludes the conversion of accrued interest for \$89,779 on convertible debentures and loans into common shares during the year ended November 30, 2013

Non cash transactions:

Year ended November 30, 2013:

During the six month period ended May 31, 2013 the Company issued 1,801,480 common shares for conversion of convertible debentures having face value of \$500,000 and accrued interest of \$40,444. The total debt for \$540,444 was converted into 1,801,480 common shares.

During the quarter ended August 31, 2013, the Company converted \$700,000 face value of convertible debentures along with \$97,716 of interest into 2,297,044 Common Shares

During the quarter ended November 30, 2013, the holder converted bridge loans for \$347,154 along with accrued interest for \$31,371 (total of \$378,525) into 1,273,378 common shares resulting in gain on extinguishment of debt for \$33,501.

Year ended November 30, 2012:

During the three month period ended August 31, 2012, the Company issued 1,484,169 common shares for conversion of convertible debentures having face value of \$411,828 (Convertible debenture 2) and accrued interest of \$33,423. The total debt for \$445,251 was converted into 1,484,169 common shares at \$0.30 per share.

During the three month period ended November 30, 2012, the Company issued 994,380 common shares for conversion of convertible debentures having face value of \$146,500 (Convertible debenture 1), accrued interest of \$23,076 and \$35,160 recorded as additional payment common stock. The total for \$204,736 was converted into 994,380 common shares.

The accompanying notes are an integral part of these financial statements.

**SECURITY DEVICES INTERNATIONAL, INC.**

**(A Development Stage Enterprise)**

**Statement of Changes in Stockholders' Equity (Deficit)**

For the period from inception (March 1, 2005) to November 30, 2013.

(Amounts expressed in US Dollars)

	Number of Common Shares	Common Shares amount	Additional Paid-in Capital	Deficit Accumulated During Development Stage	Total
	\$	\$	\$	\$	\$
Balance as of March 1, 2005	-	-	-	-	-
Issuance of Common shares for professional services	6,525,000	6,525	58,725	-	65,250
Issuance of common shares for cash	397,880	398	99,072	-	99,470
Net loss for the period	-	-	-	(188,699)	(188,699)
<b>Balance as of November 30, 2005</b>	<b>6,922,880</b>	<b>6,923</b>	<b>157,797</b>	<b>(188,699)</b>	<b>(23,979)</b>
Issuance of common shares for cash	956,000	956	94,644	-	95,600
Issuance of common shares for cash	286,000	286	49,764	-	50,050
Issuance of common shares to consultant for services	50,000	50	8,700	-	8,750
Issuance of common shares for cash	2,000,000	2,000	398,000	-	400,000
Exercise of stock options	950,000	950	94,050	-	95,000
Issuance of common shares for cash (net of agent commission)	200,000	200	179,785	-	179,985
Stock subscriptions received	-	-	1,165,500	-	1,165,500
Stock based compensation	-	-	1,049,940	-	1,049,940
Net loss for the year	-	-	-	(1,660,799)	(1,660,799)
<b>Balance as of November 30, 2006</b>	<b>11,364,880</b>	<b>11,365</b>	<b>3,198,180</b>	<b>(1,849,498)</b>	<b>1,360,047</b>
Issuance of common shares for stock	-	-	-	-	-
Subscriptions received in prior year	1,165,500	1,165	(1,165)	-	-
Issuance of common shares for cash	1,170,670	1,171	1,169,499	-	1,170,670
Issuance of common shares for cash and services	50,000	50	154,950	-	155,000
Issuance of common shares for cash (net of expenses)	2,139,000	2,139	4,531,236	-	4,533,375
Cancellation of stock	(1,560,000)	(1,560)	(14,040)	-	(15,600)
Stock based compensation	-	-	2,446,433	-	2,446,433
Issue of warrants	-	-	357,094	-	357,094
Net loss for the year	-	-	-	(4,827,937)	(4,827,937)
<b>Balance as of November 30, 2007</b>	<b>14,330,050</b>	<b>14,330</b>	<b>11,842,187</b>	<b>(6,677,435)</b>	<b>5,179,082</b>
Exercise of stock options	117,000	117	11,583	-	11,700
Stock based compensation	-	-	1,231,056	-	1,231,056
Net loss for the year	-	-	-	(4,401,786)	(4,401,786)
<b>Balance as of November 30, 2008</b>	<b>14,447,050</b>	<b>14,447</b>	<b>13,084,826</b>	<b>(11,079,221)</b>	<b>2,020,052</b>
Issuance of common shares for cash	788,000	788	196,212	-	197,000
Stock based compensation	-	-	177,990	-	177,990
Compensation expense for warrants	-	-	4,223	-	4,223
Net loss for the year	-	-	-	(2,974,467)	(2,974,467)
<b>Balance as of November 30, 2009</b>	<b>15,235,050</b>	<b>15,235</b>	<b>13,463,251</b>	<b>(14,053,688)</b>	<b>(575,202)</b>
Issuance of common shares for cash	8,143,000	8,143	1,665,157	-	1,673,300
Issuance of common shares For services	2,500,000	2,500	428,000	-	430,500
Stock subscriptions received	-	-	30,000	-	30,000
Stock based compensation	-	-	289,670	-	289,670
Net loss for the year	-	-	-	(2,320,962)	(2,320,962)
<b>Balance as of November 30, 2010</b>	<b>25,878,050</b>	<b>25,878</b>	<b>15,876,078</b>	<b>(16,374,650)</b>	<b>(472,694)</b>
Issuance of common shares for cash	800,000	800	159,200	-	160,000
Issuance of common shares for	-	-	-	-	-
Common shares issued for stock subscriptions received in prior year	150,000	150	(150)	-	-
Beneficial conversion feature on Convertible debt	-	-	29,300	-	29,300
Net loss for the year	-	-	-	(901,558)	(901,558)
<b>Balance as of November 30, 2011</b>	<b>26,828,050</b>	<b>26,828</b>	<b>16,064,428</b>	<b>(17,276,208)</b>	<b>(1,184,952)</b>
Beneficial conversion features on convertible debt	-	-	50,000	-	50,000
Conversion of convertible debt to common shares	2,478,549	2,479	647,508	-	649,987
Issuance of common shares for cash	2,165,834	2,165	647,585	-	649,750
Stock based compensation	-	-	929,365	-	929,365
Net loss for the year	-	-	-	(2,019,938)	(2,019,938)
<b>Balance as of November 30, 2012</b>	<b>31,472,433</b>	<b>31,472</b>	<b>18,338,886</b>	<b>(19,296,146)</b>	<b>(925,788)</b>
Conversion of convertible debt to common shares	1,801,480	1,802	538,642	-	540,444
Conversion of convertible debt to common shares	2,297,044	2,297	795,419	-	797,716
Issuance of common shares for cash	9,984,950	9,985	3,059,715	-	3,069,700
Common share reconciliation difference with transfer agent	20,000	20	(20)	-	-
Relative fair value of detachable 325,000 warrants component of bridge loans financing	-	-	77,537	-	77,537
Conversion of bridge loans with accrued interest to common shares	1,273,378	1,273	416,809	-	418,082
Net loss for the year	-	-	-	(2,024,211)	(2,024,211)
<b>Balance as of November 30, 2013</b>	<b>46,849,285</b>	<b>46,849</b>	<b>23,226,988</b>	<b>(21,320,357)</b>	<b>1,953,480</b>

The accompanying notes are an integral part of these financial statements.

**SECURITY DEVICES INTERNATIONAL, INC.**  
**(A Development Stage Enterprise)**  
**Notes to Financial Statements**  
**November 30, 2013 and 2012**  
**(Amounts expressed in US Dollars)**

1. BASIS OF PRESENTATION

The financial statements include the accounts of Security Devices International Inc. (the "Company" or "SDI") were prepared in accordance with generally accepted accounting principles in the United States of America. The Company was incorporated under the laws of the state of Delaware on March 1, 2005.

2. NATURE OF OPERATIONS AND GOING CONCERN

The Company is a non-lethal defense technology company, specializing in the development of 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 products. These products consist of the Blunt Impact Projectile 40mm (BIP) line of products, and the Wireless Electric Projectile 40mm (WEP).

These 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 has incurred a cumulative loss of \$21,320,357 from inception to November 30, 2013 which includes a non-cash stock based compensation expense of \$6,485,771 for issue of options and warrants. The Company has funded operations through the issuance of capital stock and convertible debentures. The Company is considered a development stage enterprise since it 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. 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. These factors raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In addition to raising funds in the prior years, the Company raised \$160,000 through the issuance of 800,000 common shares during the year ended November 30, 2011. The Company further raised an additional \$878,328 by issue of Convertible Debentures during the year ended November 30, 2011 and \$910,000 during the year ended November 30, 2012. In addition, the Company raised \$649,750 by issuance of 2,165,834 common shares during the year ended November 30, 2012. On August 15, 2013, the Company filed an amended and restated final prospectus (the "Prospectus") in Canada, in the provinces of Alberta, British Columbia and Ontario for listing its shares in these provinces in Canada. On August 27, 2013 the Company completed an initial public offering to raise gross proceeds of CAD \$3,993,980 (US \$3,794,280) through the issuance of 9,984,950 Common Shares at a price of CAD \$0.40 (US \$0.38) per Common Share (the "Issue Price"). The Company's common shares commenced trading on the TSX Venture Exchange ("TSX") under the symbol "SDZ".

**SECURITY DEVICES INTERNATIONAL, INC.**  
**(A Development Stage Enterprise)**  
**Notes to Financial Statements**  
**November 30, 2013 and 2012**  
**(Amounts expressed in US Dollars)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Use of Estimates

These financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America. As the precise determination of assets and liabilities, and revenues and expenses, depends on future events, the preparation of financial statements for any period necessarily involves the use of estimates. Actual amounts may differ from these estimates. Significant estimates include accruals, valuation allowance for deferred tax assets, estimates for calculation of stock based compensation, estimating the useful life of its plant and equipment and accounting for conversion features on convertible debt transactions.

b) Income Taxes

The Company accounts for income taxes under FASB Codification Topic 740-10-25 ("ASC 740-10-25"). Under ASC 740-10-25, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740-10-25, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company provides a valuation allowance for deferred tax assets for which it does not consider realization of such assets likely. The Company did not incur any material impact to its financial condition or results of operations due to the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company is subject to U.S federal jurisdiction income tax examinations for the tax years 2007 through 2012. In addition, the Company is subject to state and local income tax examinations for the tax years 2007 through 2012.

c) 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. In addition, the company also recognizes revenue pursuant to a teaming agreement, wherein, if a contract is awarded and executed, revenue is recognized in accordance with the sharing of revenue as set out in the teaming agreement (also refer to note 12).

**SECURITY DEVICES INTERNATIONAL, INC.**  
**(A Development Stage Enterprise)**  
**Notes to Financial Statements**  
**November 30, 2013 and 2012**  
**(Amounts expressed in US Dollars)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Cont'd

d) Earnings (Loss) Per Share

Basic loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the year. Diluted loss per share is computed by dividing net loss by the weighted average number of common shares outstanding plus common stock equivalents (if dilutive) related to stock options and warrants for each year. There were no common equivalent shares outstanding at November 30, 2013 and 2012 that have been included in dilutive loss per share calculation as the effects would have been anti-dilutive. At November 30, 2013, there were 1,510,000 options and 5,542,645 warrants outstanding, which were convertible into equal number of common shares of the Company. At November 30, 2012, there were 1,660,000 options and 4,319,000 warrants outstanding, which were convertible into equal number of common shares of the Company.

e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, and any other highly liquid investments with a maturity of three months or less. The carrying amounts approximate fair values because of the short maturity of those instruments.

f) Research and Product Development

Research and Product Development costs, other than capital expenditures but including acquired research and product development costs, are charged against income in the period incurred.

g) Stock-Based Compensation

All awards granted to employees and non-employees after November 30, 2005 are valued at fair value by using the Black-Scholes option pricing model and recognized on a straight line basis over the service periods of each award. The Company accounts for equity instruments issued in exchange for the receipt of goods or services from other than employees using the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably measurable. The value of equity instruments issued for consideration other than employee services is determined on the earlier of a performance commitment or completion of performance by the provider of goods or services. As of November 30, 2013 there was \$nil of unrecognized expense related to non-vested stock-based compensation arrangements granted. The total stock-based compensation expense relating to all employees and non employees for the years ended November 30, 2013 and 2012 was \$Nil and \$929,365 respectively.

**SECURITY DEVICES INTERNATIONAL, INC.**  
**(A Development Stage Enterprise)**  
**Notes to Financial Statements**  
**November 30, 2013 and 2012**  
**(Amounts expressed in US Dollars)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Cont'd

h) Foreign Currency

The Company maintains its books, records and banking transactions in U.S. dollars which is its functional and reporting currency. Exchange gains and losses are realized due to the differences in the exchange rate at the transaction date versus the rate in effect at the settlement or balance sheet date. Exchange gains and losses are recorded in the statement of operations.

i) Comprehensive loss

Comprehensive loss includes all changes in equity (net assets) during a period from non-owner sources. Examples of items to be included in comprehensive loss, which are excluded from net loss, include foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities.

j) Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities.

The Company follows ASC 820-10, "Fair Value Measurements and Disclosures" (ASC 820-10), which among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a three-tier fair value hierarchy has been established, which prioritizes the inputs used in measuring fair value as follows:

- Level 1—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Assets that are generally included in this category are cash and cash equivalents comprised of money market funds, restricted cash and short-term investments.

- Level 2—Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

- Level 3—Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

**SECURITY DEVICES INTERNATIONAL, INC.**  
**(A Development Stage Enterprise)**  
**Notes to Financial Statements**  
**November 30, 2013 and 2012**  
**(Amounts expressed in US Dollars)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Cont'd

j) Financial Instruments-Cont'd

Assets and liabilities measured at fair value as of November 30, 2013 and 2012 are classified below based on the three fair value hierarchy tiers described above:

	Carrying Value	Fair Value
November 30, 2013:		
Cash and cash equivalents	\$ 1,842,149	\$ 1,842,149
Accounts receivable	\$ 20,351	\$ 20,351
Prepaid expenses and other receivables	\$ 45,372	\$ 7,200
Accounts payable and accrued liabilities	\$ 106,529	\$ 106,529
November 30, 2012:		
Cash and cash equivalents	\$ 232,471	\$ 232,471
Accounts receivable	\$ -	\$ -
Accounts payable and accrued liabilities	\$ 150,368	\$ 150,368
Convertible debentures	\$ 1,192,639	\$ 1,192,639

Cash and cash equivalents have been measured using Level 1 of the Fair Value Hierarchy.

k) Impairment of Long-lived Assets

Long-lived assets to be held and used are analyzed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. The Company evaluates at each balance sheet date whether events and circumstances have occurred that indicate possible impairment. If there are indications of impairment, the Company uses future undiscounted cash flows of the related asset or asset group over the remaining life in measuring whether the assets are recoverable. In the event such cash flows are not expected to be sufficient to recover the recorded asset values, the assets are written down to their estimated fair value.

l) Concentration of Credit Risk

The Company does not have significant off-balance sheet risk or credit concentration.

**SECURITY DEVICES INTERNATIONAL, INC.**  
**(A Development Stage Enterprise)**  
**Notes to Financial Statements**  
**November 30, 2013 and 2012**  
**(Amounts expressed in US Dollars)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Cont'd

m) Intellectual Property

Four patent applications, one for the electrical mechanism and the other three for the mechanical mechanism of the WEP40, have been filed by the Company with the U.S. Patent Office. The Company has been issued four 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 pending 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.

The Company's policy is to write off patent costs as they are incurred.

n) Plant and Equipment

Plant 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

**SECURITY DEVICES INTERNATIONAL, INC.**  
**(A Development Stage Enterprise)**  
**Notes to Financial Statements**  
**November 30, 2013 and 2012**  
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Cont'd

o) Recent Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11 (ASU 2011-11), *Disclosures about Offsetting Assets and Liabilities*, which requires certain additional disclosure requirements about financial instruments and derivatives instruments that are subject to netting arrangements. The new disclosures are required for annual reporting periods beginning on or after January 1, 2013, and interim periods within those periods. The adoption of this update did not have an impact on the financial statements of the Company.

In August 2012, the FASB issued ASU 2012-03, *Technical Amendments and Corrections to SEC Sections: Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin (SAB) No. 114, Technical Amendments Pursuant to SEC Release No. 33-9250, and Corrections Related to FASB Accounting Standards Update 2010-22 (SEC Update)* in Accounting Standards Update No. 2012-03. This update amends various SEC paragraphs pursuant to the issuance of SAB No. 114. The adoption of ASU 2012-03 is not expected to have a material impact on the financial position or results of operations.

**SECURITY DEVICES INTERNATIONAL, INC.**  
**(A Development Stage Enterprise)**  
**Notes to Financial Statements**  
**November 30, 2013 and 2012**  
**(Amounts expressed in US Dollars)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES-Cont'd

o) Recent Accounting Pronouncements-Cont'd

In October 2012, the FASB issued Accounting Standards Update (ASU) 2012-04, *Technical Corrections and Improvements* in Accounting Standards Update No. 2012-04. The amendments in this update cover a wide range of topics in the Accounting Standards Codification. These amendments include technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. The amendments in this update will be effective for fiscal periods beginning after December 15, 2012. The adoption of ASU 2012-04 is not expected to have a material impact on the financial position or results of operations.

In February 2013, the FASB issued ASU No. 2013-04, "*Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date.*" This ASU addresses the recognition, measurement, and disclosure of certain obligations resulting from joint and several arrangements including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. This ASU is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company is currently assessing the impact of this guidance.

In March 2013, the FASB issued ASU No. 2013-05, "*Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.*" This ASU addresses the accounting for the cumulative translation adjustment when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The guidance outlines the events when cumulative translation adjustments should be released into net income and is intended by FASB to eliminate some disparity in current accounting practice. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company is currently assessing the impact of this guidance.

In July 2013, the FASB issued 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry forward, a Similar Tax Loss, or a Tax Credit Carry forward Exists* (ASU 2013-11), which requires entities to present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss ("NOL") or tax credit carry forward whenever the NOL or tax credit carry forward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. This accounting standard update requires entities to assess whether to net the unrecognized tax benefit with a deferred tax asset as of the reporting date. This guidance is effective for fiscal years beginning after December 15, 2013, with early adoption permitted. The Company is currently assessing the impact of this guidance.

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4. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2013	2012
Accounts payable and accrued liabilities are comprised of the following:		
Trade payables	\$ 48,494	\$ -
Accrued liabilities-accrued interest	\$	\$ 94,179
Accrued liabilities-other liabilities	\$ 58,035	\$ 56,189
	<u>\$ 106,529</u>	<u>\$ 150,368</u>

Accrued liabilities-other liabilities relate primarily to professional fees.

5. CAPITAL STOCK

- a) Authorized  
100,000,000\* Common shares, \$0.001 par value  
And  
5,000,000 Preferred shares, \$0.001 par value

\*On March 20, 2013 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 50,000,000 to 100,000,000 common shares.

The Company's Articles of Incorporation authorize its Board of Directors to issue up to 5,000,000 shares of preferred stock. 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  
46,849,285 Common shares (2012: 31,472,433 Common shares)

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5. CAPITAL STOCK-Cont'd

c) Changes to Issued Share Capital

Year ended November 30, 2013

During the six month period ended May 31, 2013 the Company issued 1,801,480 common shares for conversion of convertible debentures having face value of \$500,000 and accrued interest of \$40,444. The total debt for \$540,444 was converted into 1,801,480 common shares at \$0.30 per share.

On August 15, 2013, the Company filed an amended and restated final prospectus (the "Prospectus") in Canada, in the provinces of Alberta, British Columbia and Ontario to list its common shares ("Common Shares") on the TSXV.

On August 27, 2013, the Company completed an initial public offering to raise gross proceeds of \$3,794,280 (CAD \$3,993,980) through the issuance of 9,984,950 Common Shares at a price of \$0.38 (CAD\$0.40) per Common Share (the "Issue Price"). The Company incurred expenses of \$724,580 (CAD \$734,565) to raise the capital which included a fee of CAD \$80,000 paid to a former director and CEO in accordance with the terms of an agreement regarding escrow of shares and a cash commission of CAD\$359,458 paid to the Agent. In addition the Company granted an option (the "Agent's Option") to purchase up to 898,645 Common Shares to the Agent and members of its selling group. The Agent's Option entitles the Agent and members of its selling group to purchase Common Shares at a price of CAD\$0.40 (US \$0.38) per Common Share until August 27, 2015.

Upon completion of the Offering, \$700,000 face value of convertible debentures along with \$97,716 of interest was converted to 2,297,044 Common Shares, resulting in the discharge of those debentures (see note 14).

On January 30, 2013, the Company issued a \$199,342 (CAD \$200,000) 6% convertible bridge loan with a term to July 30, 2013 (the "Maturity Date"). In connection with the issuance of the bridge loan, the Company issued detachable warrants to purchase 100,000 shares of the Company's common stock. The warrants have an exercise price of CAD\$0.50 per share and a time to expiration of two years. The relative fair value allocated to warrants and credited to additional paid in capital was \$24,246 (see note 15)

On March 14, 2013, the Company issued a \$97,456 (CAD \$100,000) 6% convertible bridge loan with a term to July 30, 2013 (the "Maturity Date"). In connection with the issuance of the bridge loan, the Company issued detachable warrants to purchase 50,000 shares of the Company's common stock. The warrants have an exercise price of CAD\$0.50 per share and a time to expiration of two years. The relative fair value allocated to warrants and credited to additional paid in capital was \$11,269 (see note 15)

On April 12, 2013, the Company issued a \$197,355 (CAD \$200,000) 6% convertible bridge loan with a term to July 30, 2013 (the "Maturity Date"). In connection with the issuance of the bridge loan, the Company issued detachable warrants to purchase 100,000 shares of the Company's common stock. The warrants have an exercise price of CAD\$0.50 per share and a time to expiration of two years. The relative fair value allocated to warrants and credited to additional paid in capital was \$20,502 (see note 15)

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On May 14, 2013, the Company issued a \$147,812 (CAD \$150,000) 6% convertible bridge loan with a term to July 30, 2013 (the "Maturity Date"). In connection with the issuance of the bridge loan, the Company issued detachable warrants to purchase 75,000 shares of the Company's common stock. The warrants have an exercise price of CAD\$0.50 per share and a time to expiration of two years. The relative fair value allocated to warrants and credited to additional paid in capital was \$21,520 (see note 15)

During the quarter ended November 30, 2013, the holder of bridge loans converted the principal and interest totaling \$ 378,525 into common shares at CAD\$0.30 per share, resulting in gain on extinguishment of debt for \$33,501.

Year ended November 30, 2012

During the three month period ended August 31, 2012, the Company issued 1,484,169 common shares for conversion of convertible debentures having face value of \$411,828 (Convertible debenture 2) and accrued interest of \$33,423. The total debt for \$445,251 was converted into 1,484,169 common shares at \$0.30 per share.

During the three month period ended August 31, 2012, the Company issued 1,333,333 shares of common stock to private investors at a price of \$0.30 per share for a total consideration of \$400,000. The shares of common stock are restricted securities, as that term is defined in Rule 144 of the Securities and Exchange Commission. The Company relied upon the exemption provided by Section 4(2) of the Securities Act of 1933 in connection with the sale of these securities.

During the three month period ended November 30, 2012, the Company issued 994,380 common shares for conversion of convertible debentures having face value of \$146,500 (Convertible debenture 1), accrued interest of \$23,076 and \$35,160 recorded as additional payment common stock. The total for \$204,736 was converted into 994,380 common shares.

During the three month period ended November 30, 2012, the Company issued 832,501 shares of common stock to private investors at a price of \$0.30 per share for a total consideration of \$249,750. The shares of common stock are restricted securities, as that term is defined in Rule 144 of the Securities and Exchange Commission. The Company relied upon the exemption provided by Section 4(2) of the Securities Act of 1933 in connection with the sale of these securities.

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6. STOCK BASED COMPENSATION

Effective October 30, 2006 the Company adopted the following stock option and stock bonus plans which were replaced by the Incentive Stock Option Plan (the “2013 Plan”) that was issued in May, 2013.

Incentive Stock Option Plan. The Company’s Incentive Stock Option Plan authorizes the issuance of shares of its Common Stock to persons that exercise options granted pursuant to the Plan. Only employees may be granted options pursuant to the Incentive Stock Option Plan. The option exercise price is determined by its directors but cannot be less than the market price of its common stock on the date the option is granted. The Company has reserved 1,000,000 common shares under this plan. No options have been issued under this plan as at August 31, 2013.

Non-Qualified Stock Option Plan. SDI’s Non-Qualified Stock Option Plan authorizes the issuance of shares of its Common Stock to persons that exercise options granted pursuant to the Plans. SDI’s employees, directors, officers, consultants and advisors are eligible to be granted options pursuant to the Plans, provided however that bona fide services must be rendered by such consultants or advisors and such services must not be in connection with the offer or sale of securities in a capital-raising transaction. By a resolution of the Board of Directors, the Company amended this plan to increase the number of common shares available under this plan from 2,250,000 to 4,500,000 effective October 10, 2007. The Company further amended its Non-Qualified Stock Option Plan to increase the number of Common Shares available under this plan to 5,000,000 and filed an S-8 registration statement on April 10, 2008.

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6. STOCK BASED COMPENSATION-Cont'd

Stock Bonus Plan. SDI's Stock Bonus Plan allows for the issuance of shares of common stock to its employees, directors, officers, consultants and advisors. However bona fide services must be rendered by the consultants or advisors and such services must not be in connection with the offer or sale of securities in a capital-raising transaction. The Company has reserved 150,000 common shares under this plan. No options have been issued under this plan as at November 30, 2013.

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

Year ended November 30, 2013

The Company did not issue any options during the year ended November 30, 2013.

As of November 30, 2013 there was \$Nil of unrecognized expense related to non-vested stock-based compensation arrangements granted.

Year ended November 30, 2012

On January 4, 2012, the board of directors granted options to three directors to acquire a total of 775,000 common shares, one officer to acquire 20,000 common shares and two consultants to acquire a total of 110,000 common shares. The 905,000 options were issued at an exercise price of \$0.13 per share and vest immediately with an expiry term of four years. The fair value of each option used for the purpose of estimating the stock compensation is calculated using the Black-Scholes option pricing model with the following assumptions:

Risk free rate		2.00%
Expected dividends		0%
Forfeiture rate		0%
Volatility		206.87%
Market price of Company's common stock on date of grant of options	\$	0.13
Stock-based compensation cost	\$	113,292

On September 19, 2012 the board of directors approved the exchange of the 905,000 stock options issued on January 4, 2012, to 905,000 warrants on terms identical to the terms of the existing stock options in the Company effective October 8, 2012. This exchange did not result in any additional impact on the statement of operations.

On March 9, 2012, all of the issued and outstanding stock options for common shares in the Company's capital stock previously issued to Elad, Ilan Shalev and Haim Danon (being principals of Elad) were exchanged into warrants on terms identical to the terms of the existing stock options in the Company.

On October 3, 2012, the board of directors granted options to two consultants to acquire 100,000 common shares each for a total of 200,000 common shares. The 200,000 options were issued at an exercise price of \$0.42 per share and vest immediately with an expiry term of three years. The fair value of each option used for the purpose of estimating the stock compensation is calculated using the Black-Scholes option pricing model with the following assumptions:

Risk free rate		1.50%
Expected dividends		0%
Forfeiture rate		0%
Volatility		199.60%
Market price of Company's common stock on date of grant of options	\$	0.42
Stock-based compensation cost	\$	77,096

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6. STOCK BASED COMPENSATION-Cont'd

On October 26, 2012, the board of directors granted options to one director to acquire a total of 1,000,000 common shares and to another director to acquire 100,000 common shares for a total of 1,100,000 options. These 1,100,000 options were issued at an exercise price of \$0.45 per share and vest immediately with an expiry term of four years. The fair value of each option used for the purpose of estimating the stock compensation is calculated using the Black-Scholes option pricing model with the following assumptions:

Risk free rate		1.65%
Expected dividends		0%
Forfeiture rate		0%
Volatility		217.15%
Market price of Company's common stock on date of grant of options	\$	0.50
Stock-based compensation cost	\$	534,905

As of November 30, 2012 there was \$Nil of unrecognized expense related to non-vested stock-based compensation arrangements granted.

The following table summarizes the options outstanding under the Stock Option Plan:

	Number of options	
	2013	2012
Outstanding, beginning of year	1,660,000	1,450,000
Granted	-	2,205,000
Expired	(150,000)	(40,000)
Exercised	-	-
Forfeited	-	-
Cancelled/exchanged for warrants*	-	(1,955,000)
Outstanding, end of year	<u>1,510,000</u>	<u>1,660,000</u>
Exercisable, end of year	<u>1,510,000</u>	<u>1,660,000</u>

\* Includes 1,755,000 options exchanged for 1,755,000 warrants on terms identical to the terms of the existing stock options in the Company. Includes 200,000 options cancelled on the resignation of two directors.

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6. STOCK BASED COMPENSATION-Cont'd

<u>Expiry date</u>	<u>Option price per share</u>	<u>Number of options 2013</u>
June 30, 2014	\$ 0.25	175,000
June 15, 2015	\$ 0.20	35,000
October 2, 2015	\$ 0.42	200,000
October 25, 2016	\$ 0.45	1,100,000
<b>TOTAL</b>		<b>1,510,000</b>

Weighted average exercise price:		
Options outstanding at end of year	\$	0.42
Options granted during the year		-
Options exercised during the year		-
Options expired during the year		0.50
Options cancelled during the year		-

<u>Expiry date</u>	<u>Option price per share</u>	<u>Number of options 2012</u>
April 11, 2013	\$ 0.50	150,000
June 30, 2014	\$ 0.25	175,000
June 15, 2015	\$ 0.20	35,000
October 2, 2015	\$ 0.42	200,000
October 25, 2016	\$ 0.45	1,100,000
<b>TOTAL</b>		<b>1,660,000</b>

Weighted average exercise price:		
Options outstanding at end of year	\$	0.42
Options granted during the year	\$	0.32
Options exercised during the year	\$	-
Options expired during the year	\$	0.50
Options cancelled during the year	\$	0.19

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6. STOCK BASED COMPENSATION-Cont'd

The share options outstanding at the end of the year had a weighted average remaining contractual life as follows:

	2013	2012
	(Years)	(Years)
Total outstanding options	2.6	3.2
Total exercisable options	2.6	3.2

7. STOCK PURCHASE WARRANTS

Year ended November 30, 2013

On January 30, 2013, the Company issued a \$199,342 (CAD \$200,000) 6% convertible bridge loan with a term to July 30, 2013 issuance of the bridge loan, the Company issued detachable warrants to purchase 100,000 shares of the Company's common stock CAD\$0.50 per share and a time to expiration of two years. The relative fair value allocated to warrants and credited to additional

On March 14, 2013, the Company issued a \$97,456 (CAD \$100,000) 6% convertible bridge loan with a term to July 30, 2013 (the "Maturity Date"). In connection with the issuance of the bridge loan, the Company issued detachable warrants to purchase 50,000 shares of the Company's common stock. The warrants have an exercise price of CAD\$0.50 per share and a time to expiration of two years. The relative fair value allocated to warrants and credited to additional paid in capital was \$11,269 (see note 15)

On April 12, 2013, the Company issued a \$197,355 (CAD \$200,000) 6% convertible bridge loan with a term to July 30, 2013 (the "Maturity Date"). In connection with the issuance of the bridge loan, the Company issued detachable warrants to purchase 100,000 shares of the Company's common stock. The warrants have an exercise price of CAD\$0.50 per share and a time to expiration of two years. The relative fair value allocated to warrants and credited to additional paid in capital was \$20,502 (see note 15)

On May 14, 2013, the Company issued a \$147,812 (CAD \$150,000) 6% convertible bridge loan with a term to July 30, 2013 (the "Maturity Date"). In connection with the issuance of the bridge loan, the Company issued detachable warrants to purchase 75,000 shares of the Company's common stock. The warrants have an exercise price of CAD\$0.50 per share and a time to expiration of two years. The relative fair value allocated to warrants and credited to additional paid in capital was \$21,520 (see note 15)

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Year ended November 30, 2012

On January 4, 2012, the board of directors issued warrants to a Company in which the Chief Operating officer has an interest in, to acquire a total of 800,000 common shares. These warrants were issued at an exercise price of \$0.13 per share with an expiry term of four years. The Company expensed stock based compensation cost of \$100,148. The fair value of each warrant used for the purpose of estimating the compensation expense is calculated using the Black-Scholes option pricing model with the following assumptions:

Risk free rate		2.00%
Expected dividends		0%
Forfeiture rate		0%
Volatility		206.87%
Market price of Company's common stock on date of grant of options	\$	0.13
Compensation expense	\$	100,148

On March 9, 2012, all of the issued and outstanding stock options for common shares in the Company's capital stock previously issued to Elad, Ilan Shalev and Haim Danon (being principals of Elad) were exchanged into warrants on terms identical to the terms of the existing stock options in the Company. (see note 6)

On August 9, 2012, the board of directors issued warrants to a Company owned and controlled by a director, to acquire a total of 400,000 common shares. These warrants were issued at an exercise price of \$0.20 per share with an expiry term of four years. The Company expensed stock based compensation cost of \$75,013. The fair value of each warrant used for the purpose of estimating the compensation expense is calculated using the Black-Scholes option pricing model with the following assumptions:

Risk free rate		3.63%
Expected dividends		0%
Forfeiture rate		0%
Volatility		183.31%
Market price of Company's common stock on date of grant of options	\$	0.20
Compensation expense	\$	75,013

On October 3, 2012, the board of directors issued warrants to a consultant, to acquire a total of 75,000 common shares. These warrants were issued at an exercise price of \$0.42 per share with an expiry term of three years. The Company expensed stock based compensation cost of \$28,911. The fair value of each warrant used for the purpose of estimating the compensation expense is calculated using the Black-Scholes option pricing model with the following assumptions:

Risk free rate		1.5%
Expected dividends		0%
Forfeiture rate		0%
Volatility		199.60%
Market price of Company's common stock on date of grant of options	\$	0.42
Compensation expense	\$	28,911

On September 19, 2012 the board of directors approved the exchange of 905,000 stock options issued on January 4, 2012, to 905,000 warrants on terms identical to the terms of the existing stock options in the Company effective October 8, 2012. (See note 6)

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7. STOCK PURCHASE WARRANTS-Cont'd

	Number of Warrants Granted	Exercise Prices \$	Expiry Date
Outstanding at November 30, 2011 and average exercise price	1,289,000	0.22	
Granted in year 2012	800,000	0.13	1/4/2016
Granted in year 2012*	850,000	0.25	6/30/2014
Granted in year 2012	400,000	0.20	8/9/2016
Granted in year 2012	75,000	0.42	10/2/2015
Granted in year 2012*	905,000	0.13	1/4/2016
Exercised	-	-	
Forfeited	-	-	
Expired	-	-	
Cancelled	-	-	
Outstanding at November 30, 2012 and average exercise price	4,319,000	0.19	
Granted in year 2013	100,000	0.47	1/30/2015
Granted in year 2013	50,000	0.47	3/14/2015
Granted in year 2013	100,000	0.47	4/12/2015
Granted in year 2013	75,000	0.47	5/14/2015
Granted in year 2013	898,645	0.38	8/27/2015
Exercised	-	-	
Forfeited	-	-	
Expired	-	-	
Cancelled	-	-	
Outstanding at November 30, 2013 and average exercise price	5,542,645	0.23	
Exercisable at November 30, 2013		5,542,645	0.23
Exercisable at November 30, 2012		4,319,000	0.19

\* Total of 1,755,000 options were exchanged for 1,755,000 warrants on terms identical to the terms of the existing stock options in the Company

The warrants outstanding at the end of the year had a weighted average remaining contractual life as follows:

	2013 (Years)	2012 (Years)
Total outstanding warrants	1.6	2.8
Total exercisable warrants	1.6	2.8

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8. RELATED PARTY TRANSACTIONS

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

Year ended November 30, 2013

The directors were compensated as per their consulting agreements with the Company. The Company expensed a total of \$296,700 as management fees for payment to its three directors and expensed a total of \$7,200 as automobile allowance. In addition, the Company reimbursed \$164,118 to directors and officers for travel and entertainment expenses incurred for the Company.

On March 14, 2013, the Company issued a \$97,456 (CAD \$100,000) 6% convertible bridge loan with a term to July 30, 2013 (the "Maturity Date") to a director. The holder has the option at any time prior to the maturity date to demand the payment of principal and interest (the "Demand Date"). Therefore, the principal amount of the note and interest is payable at the earlier of the demand date or the maturity date. In the event the holder demands payment, the Company has ten days to make payment. In the event the Company does not make payment within the ten day period, the holder has the option to convert the outstanding principal, interest, and top-up mechanism into common stock. The conversion price of the note is equal to the twenty day moving average of the trading market price on the date of conversion ("variable conversion price"). The holder is entitled to the maximum allowable discount. As a top-up mechanism, on or before the maturity date, the Company is required to pay the holder \$5,847. This top-up mechanism is payable in addition the 6% interest due on the note. In connection with the issuance of the bridge loan, the Company issued detachable warrants to purchase 50,000 shares of the Company's common stock. The warrants have an exercise price of CAD\$0.50 per share and a time to expiration of two years. On September 16, 2013, the Company repaid the bridge loan (\$97,456), accrued interest (\$2,980), and top-up mechanism (\$5,847) totaling \$106,283 in full. As a result of the repayment, a gain on extinguishment of debt amounting to \$11,107 was recorded.

The Company expensed \$58,530 for services provided by the CFO of the Company and \$240,000 for services provided by a Company in which the Chief Operating Officer has an interest.

Year ended November 30, 2012

The directors were compensated as per their consulting agreements with the Company. The Company expensed a total of \$272,400 as management fees for payment to its three directors and expensed a total of \$6,600 as automobile allowance. In addition, the Company reimbursed \$173,111 to directors and officers for travel and entertainment expenses incurred for the Company.

On January 4, 2012, the board of directors granted options to three directors to acquire a total of 775,000 common shares and one officer to acquire 20,000 common shares. All these 795,000 options were issued at an exercise price of \$0.13 per share and vest immediately with an expiry term of four years. The Company expensed stock based compensation cost of \$99,522 for these options.

On January 4, 2012, the board of directors issued warrants to a Company in which the Chief Operating officer has an interest in, to acquire a total of 800,000 common shares. These warrants were issued at an exercise price of \$0.13 per share with an expiry term of four years. The Company expensed stock based compensation cost of \$100,148.

On August 9, 2012, the board of directors issued warrants to a Company owned and controlled by a director, to acquire a total of 400,000 common shares. These warrants were issued at an exercise price of \$0.20 per share with an expiry term of four years. The Company expensed stock based compensation cost of \$75,013.

On October 26, 2012, the board of directors granted options to one director to acquire a total of 1,000,000 common shares and to another director to acquire 100,000 common shares for a total of 1,100,000 options. These 1,100,000 options were issued at an exercise price of \$0.45 per share and vest immediately with an expiry term of four years. The Company expensed stock based compensation cost of \$534,905 for these options.

The Company expensed \$35,300 for services provided by the CFO of the Company and \$240,000 for services provided by a Company in which the Chief Operating Officer has an interest.

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9. PLANT AND EQUIPMENT

Plant and equipment are recorded at cost less accumulated depreciation.

	November 30, 2013		November 30, 2012	
	Cost \$	Accumulated Depreciation \$	Cost \$	Accumulated Depreciation \$
Computer equipment	37,573	31,267	37,573	28,565
Furniture and fixtures	18,027	14,006	18,027	12,282
Leasehold Improvements	23,721	10,057	8,252	8,252
Moulds	171,890		142,140	
		43,744		11,845
	251,211	99,074	205,992	60,944
Net carrying amount	\$	152,137	\$	145,048
Depreciation expense	\$	38,130	\$	20,585

10. INCOME TAXES

The Company has certain non-capital losses of approximately \$14,371,847 (2012: \$12,453,120) available, which can be applied against future taxable income and which expire as follows:

2025	\$	188,494
2026		609,991
2027		1,731,495
2028		3,174,989
2029		2,792,560
2030		2,044,857
2031		854,218
2032		1,056,516
2033		1,918,727
	\$	14,371,847

The reconciliation of income taxes at statutory income tax rates to the income tax expense is as follows:

	\$ November 30, 2013	\$ November 30, 2012
Loss before income taxes	(2,024,211)	(2,019,938)
Applicable statutory tax rate	35.0%	35.0%
Income tax recovery at statutory rate	(708,474)	(706,978)
Permanent differences	60,566	337,198
Tax benefit not recognized	647,908	369,780
Income taxes – current and deferred	\$ -	\$ -

Reconciliation of statutory tax rate to the effective income tax rate is as follows:

Federal statutory income tax rate	35.0%
Deferred tax asset valuation allowance	(35.0)%

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10. INCOME TAXES-Cont'd

Deferred tax asset components as of November 30, 2013 and 2012 are as follows:

	2013	2012
Operating losses available to offset future income-taxes	\$ 14,371,847	\$ 12,453,120
Expected Income tax recovery at statutory rate of 35% (2012: 35.0%)	\$ (5,030,146)	\$ (4,358,592)
Undeducted share issue costs	(239,958)	-
Valuation Allowance	\$ 5,270,104	\$ 4,358,592
Net deferred tax assets	<u>                    </u>	<u>                    </u>

As the company is in the development stage and has not earned significant revenues, it has provided a 100 per cent valuation allowance on the net deferred tax asset as of November 30, 2013 and 2012. Management believes the Company has no uncertain tax position

11. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

a) Consulting agreements:

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

Effective January 1, 2013, SDI executed an agreement with a company in which a director, Allen Ezer, has an interest in, for a period of two years to pay compensation of \$8,500 per month with a 5% increase on the first anniversary date for services rendered. Either party may terminate the consulting agreement by giving 30 days written notice.

Agreement with the Chief Executive Officer Greg Sullivan to pay compensation of \$12,000 per month, with an annual 5% increase and a car allowance of \$600 per month. The agreement expires on December 31, 2016. The monthly remuneration will increase with accomplishment of milestones. The agreement may be terminated with mutual consent or by the Chief Executive Officer giving three weeks notice.

Effective October 4, 2012, SDI executed an agreement with a company in which the Chief Operating Officer Dean Thrasher has an interest in, for a period of two years which expires on September 30, 2014 for services rendered. The total consulting fees are estimated at \$480,000 for the two year period. SDI expensed \$240,000 during the year ended November 30, 2013. The company may also accept common shares at \$0.45 per common share in lieu of cash. As of November 30, 2013, the company has not exercised its right to accept this compensation in shares.

Effective January 1, 2013, SDI executed an agreement with a non-related consultant to pay compensation of \$7,000 per month. The consultant is to assist with sales initiatives, demos and participate in trade shows. The agreement is for a period of one year. Either party may terminate the consulting agreement by giving 30 days written notice.

Effective January 1, 2013, SDI executed an agreement with a non-related consultant to pay compensation of \$7,000 per month. The consultant is to assist with sales initiatives, demos and participate in trade shows. The agreement is for a period of one year. Either party may terminate the consulting agreement by giving 30 days written notice.

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Effective November 1, 2013, SDI executed an agreement with a non-related consultant to pay compensation of \$10,000 per month. The consultant has agreed to act as a corporate advisor to assist in the development of strategies and tactics to improve the Company's external communication of its corporate strategy and asset value. The agreement is for a period of six months. Either party may terminate the consulting agreement by giving 15 days written notice.

Effective November 1, 2013, SDI executed an agreement with a non-related consultant to pay compensation of \$5,000 per month. The consultant has agreed to provide corporate markets advisory services. The agreement is for a period of a minimum of three months and will continue unless otherwise terminated by either party by giving 30 days written notice.

b) The Company has commitments for leasing office premises in Oakville, Ontario, Canada to April 30, 2018 at a rent of Canadian \$6,399 per month.

c) The Company has commitments for leasing office premises in Tampa, Florida, USA to June 30, 2014 at a rent of \$1,418 per month.

CONTINGENCIES

In November of 2013, a former officer filed a suit against the Company in the Ontario Superior Court of Justice (Province of Ontario) seeking, among other things, \$60,000 in damages for wrongful dismissal, damages of \$35,000 on account of vacation pay and damages to be determined for out of pocket expenses, breach of contract, unjust enrichment and loss of business opportunity. Management of the Company believes this suit is without merit and the Company intends to vigorously defend against the suit and as such no provision for any potential payment has been expensed.

12. EXCLUSIVE SALES AND SUPPLY AGREEMENTS

a) Sales Agreement

SDI entered into an agreement (the "Teaming Agreement") dated November 30, 2011 with Chemring Ordnance, Inc. ("Chemring") pursuant to which both agreed to establish a co-operative and supportive team to develop the best marketing, management and technical approach for the worldwide manufacture and sale of 40mm less than lethal ammunition. The Teaming Agreement provides for SDI and Chemring to create a team for the purpose of preparing competitive, cost effective proposals in response to requests for proposals and obtaining and performing any contracts that result therefrom.

Pursuant to the Teaming Agreement, if a contract is awarded, each of SDI and Chemring will perform the work to be done by it as specified in the Teaming Agreement and will share the revenue as set out in the Teaming Agreement. Either party who initiated the proposal that led to the contract will be the prime contact for that customer. Upon a contract being awarded to either SDI or Chemring, it will subcontract with the other for the other's share of the work. In accordance with the Teaming Agreement, the BIP ammunition sold will have Chemring's branding unless otherwise agreed by the parties.

The Teaming Agreement will terminate on December 20, 2016. The Teaming Agreement may also expire if a time period of two years from the effective date of the agreement passes without a bona fide arms length contract being executed and delivered with respect to BIP ammunition. It will also terminate if either party is in material breach of the Agreement or a subcontract that hasn't been resolved, if any required governmental licenses or approvals or permits are revoked, in the event of a debarment or suspension of a party at the option of the other party, and by the mutual written agreement of the parties. Also see note 18(b).

b) Supply agreement

The Company entered into a Development, Supply and Manufacturing Agreement with the BIP Manufacturer on July 25, 2012. This Agreement provides the Company to order and purchase only from the BIP Manufacturer certain 40MM assemblies and components for use by the Company to produce less-lethal and training projectiles as described in the Agreement. The Agreement is for a term of five years with an automatic extension for an additional year if neither party has given written notice of termination prior to the end of the five year period.

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13. SEGMENT DISCLOSURES

The Company, after reviewing its reporting systems, has determined that it has one reportable segment and geographic segment. The Company's operations are all related to the research and product development for its wireless electric ammunition, as well as its blunt impact projectile. All assets of the business are located in Canada except for accounts receivable for \$20,351 (2012: \$nil) and plant and equipment comprising of moulds for \$128,146 (2012: \$130,295) which is located in the United States of America.

14. CONVERTIBLE DEBENTURES AND DEFERRED FINANCING COSTS

Year ended November 30, 2013

During the six month period ended May 31, 2013 the Company issued 1,801,480 common shares for conversion of convertible debentures having face value of \$500,000 and accrued interest of \$40,444. The total debt for \$540,444 was converted into 1,801,480 common shares at \$0.30 per share.

On August 27, 2013, upon completion of the Offering, \$700,000 face value of convertible debentures along with \$97,716 of interest was converted to 2,297,044 Common Shares, resulting in the discharge of those debentures. In addition, the Company repaid the balance of \$30,000 face value of convertible debenture not converted along with accrued interest of \$3,877 and also repaid interest of \$3,024 not converted to common shares.

This resulted in the complete discharge of all convertible debt.

Year ended November 30, 2012

The carrying values of the Company's convertible debentures consist of the following as of November 30, 2012:

	Carrying Value
\$320,000 face value convertible debenture due June 30, 2014 (Convertible Debenture 2)	320,000
\$670,000 face value convertible debenture due January 16, 2015 (Convertible Debenture 4)	670,000
\$240,000 face value convertible debenture due January 16, 2015 (Convertible Debenture 5)	202,639
Total	\$ 1,192,639

*\$320,000 Face Value Convertible Debenture*

During the year ended November 30, 2011 the Company issued \$731,828 face value Convertible debentures, due June 30 2014 ("Convertible Debentures 2"), to various investors ("Investors") for net proceeds of \$731,828. The Debenture accrues interest at 8% per annum. The principal is payable at maturity whereas the interest is payable annually in arrears on each anniversary of the issuance date. The principal may be converted in multiples of \$1,000 into common stock at the option of the Investor at any time during the term to maturity. The conversion prices are (i) \$0.30 on or before the first anniversary of the debenture; (ii) \$0.35 on or before the second anniversary of the debenture; and (iii) \$0.40 after the second anniversary of the issuance of the debenture and maturity. The conversion prices are subject to adjustment solely for capital reorganization events.

During the quarter ended August 31, 2012, \$411,828 face value Convertible debentures along with accrued interest for \$33,423 were converted into 1,484,169 common shares at \$0.30 per share, leaving a balance of \$320,000 face value Convertible debentures ("Convertible Debentures 2").

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

The debenture provides down-round protection to the Investor in the event the Company issues rights, options or warrants to all or substantially all the holders of the Common Shares pursuant to which those holders are entitled to subscribe for, purchase or otherwise acquire Common Shares or Convertible Securities within a period of 45 days from the date of issue (the "Rights Period") at a price, or at a conversion price, of less than 90% of the Current Market Price at the record date for such distribution (any such issuance being a "Rights Offering" and Common Shares that may be acquired in exercise of the Rights Offering, or upon conversion of the Convertible Securities offered by the Rights Offering, being the "Offered Shares"). The debenture also embodies certain traditional default provisions that are linked to credit or interest risks, such as bankruptcy proceedings, liquidation events and corporate existence. In the event of a reorganization, consolidation, merger, or a sale of all or substantially all of the assets, the Company has the option to redeem the debenture at (i) \$1,250 per \$1,000 of Principal Sum, if occurring on or before the first anniversary of issuance; (ii) \$1,125 per \$1,000 of Principal Sum if occurring after the first anniversary and prior to the second anniversary of issuance; and (iii) \$1,050 per \$1,000 of Principal Sum if occurring after the second anniversary of issuance and prior to the end of the term.

*\$670,000 Face Value Convertible Debenture*

During the nine month period ended August 31, 2012 the Company issued \$670,000 face value Convertible debentures, due January 16, 2012 ("Convertible Debentures 4"), to various investors ("Investors") for net proceeds of \$670,000. The Debenture accrues interest at 8% per annum. The principal is payable at maturity whereas the interest is payable annually in arrears on each anniversary of the issuance date. The principal may be converted in multiples of \$1,000 into common stock at the option of the Investor at any time during the term to maturity. The conversion prices are (i) \$0.30 on or before the first anniversary of the debenture; (ii) \$0.35 on or before the second anniversary of the debenture; and (iii) \$0.40 after the second anniversary of the issuance of the debenture and maturity. The conversion prices are subject to adjustment solely for capital reorganization events.

The debenture provides down-round protection to the Investor in the event the Company issues rights, options or warrants to all or substantially all the holders of the Common Shares pursuant to which those holders are entitled to subscribe for, purchase or otherwise acquire Common Shares or Convertible Securities within a period of 45 days from the date of issue (the "Rights Period") at a price, or at a conversion price, of less than 90% of the Current Market Price at the record date for such distribution (any such issuance being a "Rights Offering" and Common Shares that may be acquired in exercise of the Rights Offering, or upon conversion of the Convertible Securities offered by the Rights Offering, being the "Offered Shares"). The debenture also embodies certain traditional default provisions that are linked to credit or interest risks, such as bankruptcy proceedings, liquidation events and corporate existence. In the event of a reorganization, consolidation, merger, or a sale of all or substantially all of the assets, the Company has the option to redeem the debenture at (i) \$1,250 per \$1,000 of Principal Sum, if occurring on or before the first anniversary of issuance; (ii) \$1,125 per \$1,000 of Principal Sum if occurring after the first anniversary and prior to the second anniversary of issuance; and (iii) \$1,050 per \$1,000 of Principal Sum if occurring after the second anniversary of issuance and prior to the end of the term.

*\$240,000 Face Value Convertible Debenture*

During the quarter ended February 29, 2012 the Company issued \$240,000 face value Convertible debentures, due January 16, 2012 ("Convertible Debentures 5"), to various investors ("Investors") for net proceeds of \$240,000. The Debenture accrues interest at 8% per annum. The principal is payable at maturity whereas the interest is payable annually in arrears on each anniversary of the issuance date. The principal may be converted in multiples of \$1,000 into common stock at the option of the Investor at any time during the term to maturity. The conversion prices are (i) \$0.30 on or before the first anniversary of the debenture; (ii) \$0.35 on or before the second anniversary of the debenture; and (iii) \$0.40 after the second anniversary of the issuance of the debenture and maturity. The conversion prices are subject to adjustment solely for capital reorganization events.

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

The debenture provides down-round protection to the Investor in the event the Company issues rights, options or warrants to all or substantially all the holders of the Common Shares pursuant to which those holders are entitled to subscribe for, purchase or otherwise acquire Common Shares or Convertible Securities within a period of 45 days from the date of issue (the "Rights Period") at a price, or at a conversion price, of less than 90% of the Current Market Price at the record date for such distribution (any such issuance being a "Rights Offering" and Common Shares that may be acquired in exercise of the Rights Offering, or upon conversion of the Convertible Securities offered by the Rights Offering, being the "Offered Shares").

The debenture also embodies certain traditional default provisions that are linked to credit or interest risks, such as bankruptcy proceedings, liquidation events and corporate existence. In the event of a reorganization, consolidation, merger, or a sale of all or substantially all of the assets, the Company has the option to redeem the debenture at (i) \$1,250 per \$1,000 of Principal Sum, if occurring on or before the first anniversary of issuance; (ii) \$1,125 per \$1,000 of Principal Sum if occurring after the first anniversary and prior to the second anniversary of issuance; and (iii) \$1,050 per \$1,000 of Principal Sum if occurring after the second anniversary of issuance and prior to the end of the term.

**Accounting for the Financings:**

The Company has evaluated the terms and conditions of the convertible debentures under the guidance of ASC 815, Derivatives and Hedging. The conversion features meet the definition of conventional convertible for purposes of applying the conventional convertible exemption. The definition of conventional contemplates a limitation on the number of shares issuable under the arrangement. In the case of Convertible Debentures 2, 4 and 5 the instrument is convertible into a fixed number of shares. Although this instrument contains a down-round protection feature, it was determined to be insignificant and did not preclude characterization as conventional convertible. Since the Convertible Debentures achieved the conventional convertible exemption, the Company was required to consider whether the hybrid contracts embody a beneficial conversion feature. In the case of Convertible Debenture 5, the calculation of the effective conversion amount resulted in a beneficial conversion feature. However, in the case of Convertible Debentures 2 and 4 the calculation of the effective conversion amount did not result in a beneficial conversion feature. At inception, the Company recorded a beneficial conversion feature for Convertible Debenture 5 as a component of stockholder's equity.

The optional redemption feature embedded in Convertible Debentures 2, 4 and 5 were not considered clearly and closely related to the host debt instrument. The Company analyzed the down-round protection feature, which expires 45 days from the inception date of the financing. The Company determined that there were no contemplated financings during this time period that would trigger the down-round protection feature. Given the feature's short-term nature and the unlikelihood of a triggering event occurring, the down-round protection feature was deemed immaterial at inception and thus does not require bifurcation and liability classification.

The purchase price allocation for Convertible Debenture 5 resulted in a debt discount of \$50,000 respectively. The discount on the debenture is being amortized through periodic charges to interest expense over the term of the debenture using the effective interest method.

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15. CONVERTIBLE BRIDGE LOANS

**\$199,342 (CAD \$200,000) Convertible Bridge Loan**

On January 30, 2013, the Company issued a \$199,342 (CAD \$200,000) 6% convertible bridge loan with a term to July 30, 2013 (the "Maturity Date"). The holder has the option at any time prior to the maturity date to demand the payment of principal and interest (the "Demand Date"). Therefore, the principal amount of the note and interest is payable at the earlier of the demand date or the maturity date. In the event the holder demands payment, the Company has ten days to make payment. In the event the Company does not make payment within the ten day period, the holder has the option to convert the outstanding principal, interest, and top-up mechanism into common stock. The conversion price of the note is equal to the twenty day moving average of the trading market price on the date of conversion ("variable conversion price"). The holder is entitled to the maximum allowable discount. As a top-up mechanism, on or before the maturity date, the Company is required to pay the holder \$11,961. This top-up mechanism is payable in addition the 6% interest due on the note. In connection with the issuance of the bridge loan, the Company issued detachable warrants to purchase 100,000 shares of the Company's common stock. The warrants have an exercise price of CAD\$0.50 per share and a time to expiration of two years.

The Company evaluated the terms and conditions of the convertible bridge loan and detachable warrants under the guidance of ASC 815. Even though the instrument's conversion price used to calculate the settlement amount is not fixed the embedded conversion feature is still considered "indexed to an entity's own stock" under the guidance of ASC 815 because the only variables that could affect the settlement amount are inputs to the fair value of a fixed-for-fixed forward or option on equity shares. However, the conversion feature did not meet the conditions for equity classification provided in paragraphs 11 through 35 of ASC 815-40-25 because due to the variable conversion price contained in the contracts, the number of shares that could be required to be delivered upon net-share settlement is essentially indeterminate. Therefore, the conversion feature requires bifurcation and liability classification. There were no terms or features contained in the warrant agreement that would preclude the warrants from achieving equity classification.

The following table reflects the allocation on the financing date:

Convertible Bridge Loans	\$ 199,342 Face Value
Proceeds	\$ (199,342)
Embedded conversion feature	159,268
Paid in capital (warrants)	24,246
Convertible bridge loans	15,828

On September 16, 2013, the holder converted the bridge loan (\$199,342), accrued interest (\$7,504), and top-up mechanism (\$11,961) totaling \$218,807 into 736,078 shares of common stock. Prior to the conversion, the discount of \$183,514 was amortized up to face value using the effective interest method.

**\$97,456 (CAD \$100,000) Convertible Bridge Loan**

On March 14, 2013, the Company issued a \$97,456 (CAD \$100,000) 6% convertible bridge loan with a term to July 30, 2013 (the "Maturity Date"). The holder has the option at any time prior to the maturity date to demand the payment of principal and interest (the "Demand Date"). Therefore, the principal amount of the note and interest is payable at the earlier of the demand date or the maturity date. In the event the holder demands payment, the Company has ten days to make payment. In the event the Company does not make payment within the ten day period, the holder has the option to convert the outstanding principal, interest, and top-up mechanism into common stock. The conversion price of the note is equal to the twenty day moving average of the trading market price on the date of conversion ("variable conversion price"). The holder is entitled to the maximum allowable discount. As a top-up mechanism, on or before the maturity date, the Company is required to pay the holder \$5,847. This top-up mechanism is payable in addition the 6% interest due on the note. In connection with the issuance of the bridge loan, the Company issued detachable warrants to purchase 50,000 shares of the Company's common stock. The warrants have an exercise price of CAD\$0.50 per share and a time to expiration of two years.

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15. CONVERTIBLE BRIDGE LOANS - Cont'd

The Company has evaluated the terms and conditions of the convertible bridge loan and detachable warrants under the guidance of ASC 815. Even though the instrument's conversion price used to calculate the settlement amount is not fixed the embedded conversion feature is still considered "indexed to an entity's own stock" under the guidance of ASC 815 because the only variables that could affect the settlement amount are inputs to the fair value of a fixed-for-fixed forward or option on equity shares. However, the conversion feature did not meet the conditions for equity classification provided in paragraphs 11 through 35 of ASC 815-40-25 because due to the variable conversion price contained in the contracts, the number of shares that could be required to be delivered upon net-share settlement is essentially indeterminate. Therefore, the conversion feature requires bifurcation and liability classification. There were no terms or features contained in the warrant agreement that would preclude the warrants from achieving equity classification.

The following table reflects the allocation on the financing date:

Convertible Bridge Loans	\$ 97,456	Face Value
Proceeds	\$	(97,456)
Embedded conversion feature		56,477
Paid in capital (warrants)		11,269
Convertible bridge loans		29,710

On September 16, 2013, the Company repaid the bridge loan (\$97,456), accrued interest (\$2,980), and top-up mechanism (\$5,847) totaling \$106,283 in full. As a result of the repayment, a gain on extinguishment of debt amounting to \$11,107 was recorded. Prior to the repayment, the discount of \$67,746 was amortized up to face value using the effective interest method.

***\$197,355 (CAD \$200,000) Convertible Bridge Loan***

On April 12, 2013, the Company issued a \$197,355 (CAD \$200,000) 6% convertible bridge loan with a term to July 30, 2013 (the "Maturity Date"). The holder has the option at any time prior to the maturity date to demand the payment of principal and interest (the "Demand Date"). Therefore, the principal amount of the note and interest is payable at the earlier of the demand date or the maturity date. In the event the holder demands payment, the Company has ten days to make payment. In the event the Company does not make payment within the ten day period, the holder has the option to convert the outstanding principal, interest, and top-up mechanism into common stock. The conversion price of the note is equal to the twenty day moving average of the trading market price on the date of conversion ("variable conversion price"). The holder is entitled to the maximum allowable discount. As a top-up mechanism, on or before the maturity date, the Company is required to pay the holder \$11,841. This top-up mechanism is payable in addition the 6% interest due on the note. In connection with the issuance of the bridge loan, the Company issued detachable warrants to purchase 100,000 shares of the Company's common stock. The warrants have an exercise price of \$0.50 per share and a time to expiration of two years.

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15. CONVERTIBLE BRIDGE LOANS - Cont'd

The Company has evaluated the terms and conditions of the convertible bridge loan and detachable warrants under the guidance of ASC 815. Even though the instrument's conversion price used to calculate the settlement amount is not fixed the embedded conversion feature is still considered "indexed to an entity's own stock" under the guidance of ASC 815 because the only variables that could affect the settlement amount are inputs to the fair value of a fixed-for-fixed forward or option on equity shares. However, the conversion feature did not meet the conditions for equity classification provided in paragraphs 11 through 35 of ASC 815-40-25 because due to the variable conversion price contained in the contracts, the number of shares that could be required to be delivered upon net-share settlement is essentially indeterminate. Therefore, the conversion feature requires bifurcation and liability classification. There were no terms or features contained in the warrant agreement that would preclude the warrants from achieving equity classification.

The following table reflects the allocation on the financing date:

Convertible Bridge Loans	\$ 197,355 Face Value
Proceeds	\$ (197,355)
Embedded conversion feature	105,423
Paid in capital (warrants)	20,502
Convertible bridge loans	71,430

On September 16, 2013, the Company repaid the bridge loan (\$197,355), accrued interest (\$5,093), and top-up mechanism (\$11,841) totaling \$214,289 in full. As a result of the repayment, a gain on extinguishment of debt amounting to \$22,394 was recorded. Prior to the repayment, the discount of \$125,925 was amortized up to face value using the effective interest method.

***\$147,812 (CAD \$150,000) Convertible Bridge Loan***

On May 14, 2013, the Company issued a \$147,812 (CAD \$150,000) 6% convertible bridge loan with a term to July 30, 2013 (the "Maturity Date"). The holder has the option at any time prior to the maturity date to demand the payment of principal and interest (the "Demand Date"). Therefore, the principal amount of the note and interest is payable at the earlier of the demand date or the maturity date. In the event the holder demands payment, the Company has ten days to make payment. In the event the Company does not make payment within the ten day period, the holder has the option to convert the outstanding principal, interest, and top-up mechanism into common stock. The conversion price of the note is equal to the twenty day moving average of the trading market price on the date of conversion ("variable conversion price"). The holder is entitled to the maximum allowable discount. As a top-up mechanism, on or before the maturity date, the Company is required to pay the holder \$8,869. This top-up mechanism is payable in addition the 6% interest due on the note. In connection with the issuance of the bridge loan, the Company issued detachable warrants to purchase 75,000 shares of the Company's common stock. The warrants have an exercise price of CAD\$0.50 per share and a time to expiration of two years.

The Company has evaluated the terms and conditions of the convertible bridge loan and detachable warrants under the guidance of ASC 815. Even though the instrument's conversion price used to calculate the settlement amount is not fixed the embedded conversion feature is still considered "indexed to an entity's own stock" under the guidance of ASC 815 because the only variables that could affect the settlement amount are inputs to the fair value of a fixed-for-fixed forward or option on equity shares. However, the conversion feature did not meet the conditions for equity classification provided in paragraphs 11 through 35 of ASC 815-40-25 because due to the variable conversion price contained in the contracts, the number of shares that could be required to be delivered upon net-share settlement is essentially indeterminate. Therefore, the conversion feature requires bifurcation and liability classification. There were no terms or features contained in the warrant agreement that would preclude the warrants from achieving equity classification.

The following table reflects the allocation on the financing date:

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15. CONVERTIBLE BRIDGE LOANS - Cont'd

Convertible Bridge Loans	\$ 147,812 Face Value
Proceeds	\$ (147,812)
Embedded conversion feature	101,422
Paid in capital (warrants)	21,520
Convertible bridge loans	24,870

On September 16, 2013, the holder converted the bridge loan (\$147,812), accrued interest (\$3,037), and top-up mechanism (\$8,869) totaling \$159,718 into 537,300 shares of common stock. Prior to the conversion, the discount of \$122,942 was amortized up to face value using the effective interest method.

16. DERIVATIVE FINANCIAL INSTRUMENTS

***Derivative Liabilities***

The convertible bridge loans as described in Note 15 contained embedded conversion features that embodied terms and features that required the instruments to be bifurcated and carried as derivative liabilities. However, as of the reporting date these derivative financial instruments were either fully converted or fully repaid. As a result, there are no derivative financial instruments as of November 30, 2013.

The following table illustrates the amounts that were reflected in our earnings related to our derivatives for the year ended November 30, 2013:

	Year Ended November 30, 2013
Derivative income (expense):	
\$ 199,342 face value convertible bridge loan (embedded conversion feature)	\$ 136,402
\$ 97,456 face value convertible bridge loan (embedded conversion feature)	45,370
\$ 197,355 face value convertible bridge loan (embedded conversion feature)	83,029
\$ 147,812 face value convertible bridge loan (embedded conversion feature)	84,731
Total derivative income	<u>\$ 349,532</u>

17. DEFERRED COSTS

As of November 30, 2012, this represented the corporate finance fees and retainer given to an agent to commence due diligence and processing of public offering. This cost was deferred and upon completion of this transaction a charge was made to share capital during the year ended November 30, 2013.

18. SUBSEQUENT EVENTS

- a) Subsequent to the year end, on February 3, 2014, the Company incorporated a 100% owned subsidiary in Canada named "Security Devices International Canada Corp"
- b) The Company's relationship with Chemring {note 12(a)} will now be focused more on marketing the products to the Company's global sales channels.