

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended July 31, 2021

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

For the transition period from _____ to _____

Commission File Number 000-54851

DEFENSE TECHNOLOGIES INTERNATIONAL CORP.

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

99-0363802

(I.R.S. Employer Identification Number)

2683 Via De La Valle, Suite G418, Del Mar CA 92014

(Address of principal executive offices)

(800) 520-9485

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company

| | | | |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input checked="" type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |
| Emerging Growth Company | <input checked="" type="checkbox"/> | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

As of September 20, 2021, there were 126,357,931 shares of the registrant's common stock, and 2,925,369 Series A preferred and 520,000 Series B preferred and 261,795 Series C preferred: \$0.0001 par value, outstanding.

DEFENSE TECHNOLOGIES INTERNATIONAL CORP.
FORM 10-Q

FOR THE THREE MONTH PERIODS ENDED JULY 31, 2021 AND 2020
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

**Defense Technologies International Corp. and Subsidiary
Condensed Consolidated Balance Sheets**

| | July 31, 2021 | April 30, 2021 |
|---|----------------------|-----------------------|
| | (Unaudited) | (Audited) |
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 46,125 | \$ 44,209 |
| Inventory | 80,395 | 69,381 |
| Prepaid | 20,000 | 20,000 |
| Total current assets | 146,520 | 133,590 |
| Fixed assets, net of depreciation of \$17,490 and \$14,575 | 17,421 | 20,336 |
| Total assets | \$ 163,941 | \$ 153,927 |
| Current liabilities: | | |
| Accounts payable and accrued expense | \$ 533,274 | \$ 487,258 |
| Accrued licenses agreement payable | 133,800 | 121,300 |
| Accrued interest and fees payable | 170,107 | 169,273 |
| Convertible notes payable, net of discount | 814,950 | 805,890 |
| Derivative liabilities | 1,265,707 | 910,511 |
| Payables – related parties | 1,310,599 | 1,249,818 |
| Customer deposits | 30,375 | 30,375 |
| Notes payable | 377,542 | 377,542 |
| Total current liabilities | 4,636,354 | 4,151,967 |
| Total liabilities | 4,636,354 | 4,151,967 |
| Commitments and Contingencies | | |
| Mezzanine equity: | | |
| Redeemable series C preferred shares; \$0.0001, 1,500,000 shares authorized, 261,795 and 244,700 issued and outstanding; respectively plus accrued interest at 9% | 194,364 | 216,257 |
| Stockholders' deficit: | | |
| Preferred stock, \$0.0001 par value; 20,000,000 shares authorized, Series A – 2,925,369 and 2,925,369 shares issued and outstanding, respectively | 292 | 292 |
| Series B – 520,000 shares issued and outstanding, respectively | 52 | 52 |
| Common stock, \$0.0001 par value; 600,000,000 shares authorized, 117,461,299, and 90,242,855 shares issued and outstanding, respectively | 11,744 | 9,022 |
| Additional paid-in capital | 9,604,364 | 9,209,750 |
| Accumulated deficit | (14,068,805) | (13,229,003) |
| Total | (4,452,353) | (4,009,887) |
| Non-controlling interest | (214,424) | (204,411) |
| Total stockholders' deficit | (4,666,777) | (4,214,298) |
| Total liabilities and stockholders' deficit | \$ 163,941 | \$ 153,927 |

See notes to condensed consolidated financial statements

Defense Technologies International Corp. and Subsidiary
Condensed Consolidated Statements of Operations
As of July 31,
(Unaudited)

| | Three Months | |
|--|---------------------|--------------|
| | 2021 | 2020 |
| Revenue | \$ - | \$ - |
| Cost of goods | - | - |
| Gross Profit | - | - |
| Expenses: | | |
| Depreciation | 2,915 | 2,915 |
| Consulting | 135,000 | 98,000 |
| General and administrative | 66,365 | 88,793 |
| Total expenses | 204,280 | 189,708 |
| Loss from operations | (204,280) | (189,708) |
| Other income (expense): | | |
| Interest expense | (25,442) | (34,860) |
| Gain (loss) on derivative liability | (525,295) | 66,056 |
| Finance cost | - | (5,380) |
| Interest- note discount | (90,060) | (128,930) |
| Total other income (expense) | (640,777) | (103,114) |
| Income (loss) before income taxes | (845,058) | (292,823) |
| Provision for income taxes | - | - |
| Net income (loss) before non-controlling interest | (845,058) | (292,823) |
| Non- controlling interest in net loss of the consolidated subsidiary | 10,013 | 10,827 |
| Net income (loss) attributed to the Company | \$ (835,045) | \$ (281,996) |
| Net income (loss) per common share: | | |
| Basic and diluted | \$ (0.02) | \$ (0.02) |
| Weighted average common shares outstanding: | | |
| Basic and Diluted | 101,705,670 | 13,349,602 |

See notes to condensed consolidated financial statements

Defense Technologies International Corp. and Subsidiary
Condensed Consolidated Statements of Stockholders' Deficit
For the Three Months Ended July 31, 2021 and 2020
(Unaudited)

| | Preferred stock | | Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Non- Controlling Interest | Total Stockholders' Deficit |
|--|-----------------|--------|--------------|----------|----------------------------------|------------------------|---------------------------------|-----------------------------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balance, April 30, 2020 (Restated) | 3,445,369 | \$ 344 | 9,056,524 | \$ 905 | \$7,191,595 | \$ (11,421,007) | \$ (161,256) | \$ (4,389,419) |
| Common stock issued for the conversion of debt | - | - | 10,635,623 | 1,063 | 130,446 | - | - | 131,509 |
| Retirement of derivative on debt conversion | - | - | - | - | 237,433 | - | - | 237,433 |
| Net loss | - | - | - | - | - | (281,996) | (10,877) | (292,823) |
| Balance at July 31, 2020 (Restated) | 3,445,369 | 344 | 19,692,147 | 1,968 | 7,559,474 | (11,703,003) | (172,083) | (4,313,300) |
| Balance at April 30, 2021 | 3,690,069 | 344 | 90,242,855 | 9,022 | 9,209,750 | (13,229,003) | (204,411) | (4,214,298) |
| Common stock issued for debt | - | - | 14,174,884 | 1,418 | 100,420 | - | - | 101,838 |
| Retirement of derivative at conversion | - | - | - | - | 170,098 | - | - | 170,098 |
| Common stock issued for Series C preferred | (97,405) | - | 13,043,560 | 1,304 | 124,096 | - | - | 125,400 |
| Temporary equity- preferred shares- issued | 114,500 | - | - | - | - | - | - | - |
| Capitalize funding and dividend | - | - | - | - | - | (4,757) | - | (4,757) |
| Net loss | - | - | - | - | - | (835,045) | (10,013) | (845,058) |
| Balance at July 31, 2021 | 3,707,164 | \$ 344 | 117,461,299 | \$11,744 | \$ 9,604,364 | \$ (14,068,805) | \$ (214,424) | \$ (4,666,777) |

See notes to condensed consolidated financial statements

Defense Technologies International Corp and Subsidiary
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| | Three Months Ended July 31, | |
|--|------------------------------------|-----------------|
| | 2021 | 2020 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (845,058) | \$ (292,823) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Amortization of debt discount to interest expense | 90,061 | 135,340 |
| (Gain) loss on derivative liability | 525,295 | (66,056) |
| Depreciation | 2,915 | 2,915 |
| Change in operating assets and liabilities: | | |
| (Increase) decrease in inventory | (11,014) | (1,867) |
| Increase (decrease) in accounts payable and accrued expenses | 80,186 | 94,616 |
| Increase in payables – related parties | 60,781 | 57,575 |
| Net cash provided by (used in) operating activities | <u>(96,834)</u> | <u>(70,299)</u> |
| Cash flows from financing activities | | |
| Proceeds from Series C preferred shares | 98,750 | - |
| Net cash provided by financing activities | 98,750 | - |
| Net increase (decrease) in cash | 1,916 | (70,299) |
| Cash at beginning of period | 44,209 | 70,416 |
| Cash at end of period | <u>\$ 46,125</u> | <u>\$ 117</u> |
| Supplement Disclosures | | |
| Interest Paid | \$ - | \$ - |
| Income tax Paid | \$ - | \$ - |
| Noncash financing and investing activities | | |
| Retirement of derivative at debt conversion | \$ 170,099 | \$ 237,433 |
| Interest accrued on preferred shares | \$ 4,757 | \$ - |
| Common stock issued for convertible debt | \$ 101,838 | \$ 131,509 |
| Common stock issued for conversion of series C preferred | <u>\$ 125,400</u> | <u>\$ -</u> |

See notes to condensed consolidated financial statements

Defense Technologies International Corp. and Subsidiary
Notes to Condensed Consolidated Financial Statements
As of July 31, 2021
(Unaudited)

NOTE -1: BASIS OF PRESENTATION AND ORGANIZATION

Defense Technologies International Corp. (the "Company ") was incorporated in the State of Delaware on May 27, 1998. Effective June 15, 2016, the Company changed its name to Defense Technologies International Corp. from Canyon Gold Corp. to more fully represent the Company's expansion goals into the advanced technology sector.

On October 19, 2016, the Company entered into a Definitive Agreement with Controlled Capture Systems, LLC ("CCS"), representing the inventor of the technology and assets previously acquired by DTC, that included a new exclusive Patent License Agreement and Independent Contractor agreement. Under the license agreement with CCS, the Company acquired the world-wide exclusive rights and privileges to the CCS security technology, patents, products and improvements. The Company agreed to pay CCS an initial licensing fee of \$25,000 and to pay ongoing royalties as defined in the Definitive Agreement. On May 30, 2018, the Company and Control Capture Systems, LLC amended their license agreement as follows (1) Royalty payments of 5% of gross sale from the license agreement will be calculated and paid quarterly with a minimum of \$12,500 paid each quarter (2) All payment will be in US dollars or stock of the Company and or its subsidiary. The value of the stock will be a discount to market of 25% of the average trading price for the 10 days prior to conversion. The number of shares received by Control Capture prior to any reverse split are anti-dilutive (3)Invoices for parts and materials will be billed separate of the license fees noted above.

Effective January 12, 2017, Passive Security Scan, Inc. ("PSSI") was incorporated in the state of Utah as subsidiary controlled by the Company. The Company transferred to PSSI its exclusive world-wide license to the defense, detection and protection security products previously acquired by the Company. The Company currently owns 76.28% of PSSI with 23.72% acquired by several individuals and entities. The Company plans to continue the development of the technology and conduct all sales and marketing activities in PSSI.

Basis of Presentation

These condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. The Company's fiscal year end is April 30.

The interim condensed consolidated financial statements have been prepared without audit in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Securities and Exchange Commission ("SEC") Form 10-Q. They do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. Therefore, these unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements and notes thereto for the year ended April 30, 2021 included in its Annual Report on Form 10-K filed with the SEC.

The interim condensed consolidated financial statements included herein are unaudited; however, they contain all normal recurring accruals and adjustments that, in the opinion of management, are necessary to present fairly the Company's consolidated financial position as of July 31, 2021, the consolidated results of its operations and its consolidated cash flows for the three months ended July 31, 2021 and 2020. The results of operations for any interim period are not necessarily indicative of the results to be expected for the full fiscal year.

Consolidation and Non-Controlling Interest

These consolidated financial statements include the accounts of the Company, and its majority-owned subsidiary, PSSI, from its formation on January 12, 2017 to date. All inter-company transactions and balances have been eliminated.

Inventory

Inventories are stated at the lower of cost using the first-in, first-out (FIFO) cost method of accounting. Inventories as of July 31, 2021 consist of parts used in assembly of the units being sold plus work in progress and finished goods. As of July 31, 2021 the value of the inventory was \$80,395, consisting of raw materials of \$31,723 and finished goods of \$48,672 with no work in process. This compares to inventory as of April 30, 2021 of \$69,381 consisting of raw materials of \$55,871 and finished goods of \$13,510 with no work in process.

Equipment

Equipment is carried at the cost of acquisition and depreciated over the estimated useful lives of the assets. Costs associated with repair and maintenance is expensed as incurred. Costs associated with improvements which extend the life, increase the capacity or improve the efficiency of our property and equipment are capitalized and depreciated over the remaining life of the related asset. Gains and losses on dispositions of equipment are reflected in operations. Depreciation is provided using the straight-line method over the estimated useful lives of the assets

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Impairment of Long-Lived Assets

We continually monitor events and changes in circumstances that could indicate carrying amounts of long-lived assets may not be recoverable. When such events or changes in circumstances are present, we assess the recoverability of long-lived assets by determining whether the carrying value of such assets will be recovered through undiscounted expected future cash flows. If the total of the future cash flows is less than the carrying amount of those assets, we recognize an impairment loss based on the excess of the carrying amount over the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell.

Net Income (Loss) per Common Share

Basic net income or loss per common share is calculated by dividing the Company's net income or loss by the weighted average number of common shares outstanding during the period. Diluted net income or loss per common share is calculated by dividing the Company's net income or loss by sum of the weighted average number of common shares outstanding and the dilutive potential common share equivalents then outstanding. Potential dilutive common share equivalents consist of shares issuable upon exercise of outstanding stock options and warrants, using the treasury stock method and the average market price per share during the period, and conversion of convertible debt, using the if converted method. As of July 31, 2021, the Company had potential shares issuable under convertible preferred shares, outstanding options, warrants and convertible debt for a total of 174,620,822. With the loss in operations for the three months period ended July 31, 2021, the additional shares were determined to be non-dilutive.

Recent Accounting Pronouncements

In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No 2020-06 Debt with Conversion and Other Options (Subtopic 470-20) and Derivative and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40), Accounting for Convertible Instruments and Contract's in an Entity's own Equity. The ASU simplifies accounting for convertible instruments by removing major separation models required under GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. The ASU simplifies the diluted net income per share calculation

in certain areas. The ASU is effective for annual and interim periods beginning after December 31, 2001 and early adoption is permitted for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. The Company is currently evaluating the impact that this new guidance will have on its financial statements.

NOTE- 2: GOING CONCERN

These condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to a going concern. Through July 31, 2021, the Company had no revenues, has accumulated deficit of \$14,068,805 and a working capital deficit of \$4,489,834 and expects to incur further losses in the development of its business. The Company has not yet established an ongoing source of revenue sufficient to cover operating costs, which raises substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Management plans to continue to provide for the Company's capital needs during the year ending April 30, 2022 by issuing debt and equity securities and by the continued support of its related parties. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

NOTE – 3: INVESTMENTS

Effective January 12, 2017, Passive Security Scan, Inc. ("PSSI") was incorporated in the state of Utah as subsidiary controlled by the Company. The Company transferred to PSSI its exclusive world-wide license to the defense, detection and protection security products previously acquired by the Company for 17,500 shares of PSSI valued at \$378,600 for 76.28% of PSSI. The balance of PSSI was acquired by four individuals and entities. The Company plans to continue the development of the technology and conduct all sales and marketing activities in PSSI. The investment was impaired as of April 30, 2019.

NOTE -4: RELATED PARTY TRANSACTIONS

Management and administrative services are currently compensated as per a Service Agreement between the Company and its Chief Executive Officer and Director executed on April 25, 2016 and a Service Agreement with the subsidiary PSSI executed on January 12, 2017, a Service Agreement between the Company and a Director executed on May 20, 2016, and an Administration Agreement with a related party executed on March 15, 2011 and renewed on May 1, 2017 plus the assumption of a Service Agreement with the subsidiary PSSI assumed on January 12, 2017, whereby the fee is based on services provided and invoiced by the related parties on a monthly basis and the fees are paid in cash when possible or with common stock. The Company also, from time to time, has some of its expenses paid by related parties with the intent to repay. These types of transactions, when incurred, result in payables to related parties in the Company's consolidated financial statements as a necessary part of funding the Company's operations.

As of July 31, 2021 and April 30, 2021, the Company had payable balances due to related parties totaling \$1,310,599 and \$1,249,818, respectively, which resulted from transactions with these related parties and other significant shareholders.

NOTE – 5: NOTES PAYABLE

On March 5, 2018, the Company subsidiary PSSI entered into a note agreement with Premium Marketing Associates, LLC for \$25,000. The funds were designated for use in a marketing agreement with the Edward Fitzgerald Group for raising funds for PSSI. The note was to be repaid from investment fund generated by the Fitzgerald group plus 15% of the funds generated are paid to the investor.

On July 6, 2018, the Company signed an investment agreement with a third party. Under the terms of the agreement the Company received \$250,000 through the Company attorney's trust account. On July 12, 2018, the Company received the \$250,000 less wire and legal payment of \$10,045. In addition the note holder will receive a royalty of 5% up to \$250,000 and then a royalty of 3.5% for two years thereafter. The note holder will receive 150,000 shares of the Company's common stock plus 100,000 warrants to purchase common shares within three years at \$2.50 per share which expired during this quarter. As of July 31, 2021 the balance of principal owed is \$300,000

On July 18, 2018, the Company entered into a promissory note of \$114,226.26 with interest rate of 8% per annum with Haynie & Company the Company's former auditors. Under the terms of the agreement commencing August 15, 2018 the Company is to pay Haynie \$5,000 per month. In addition the Company shall pay the note holder 20% of any funding event of private or public equity. As of July 31, 2021 the Company owed the note holder \$52,542 plus interest and is in default.

As of July 31, 2021 and April 30, 2021 the outstanding balances of notes payable was \$377,542, respectively.

NOTE – 6: CONVERTIBLE DEBT

On March 10, 2016, the Company entered into a convertible promissory note for \$17,000 with ACM Services GmbH, which bears interest at an annual rate of 6% and is convertible into shares of the Company's common stock at \$0.05 per share. The Company recorded a debt discount and a beneficial conversion feature of \$17,000 at the inception of the note. As of July 31, 2021 the balance of the notes was \$7,000 plus interest.

On February 16, 2018 Passive Security Scan Inc, a subsidiary of the Company issued a \$20,000 convertible note to Stuart Young. The note bears interest at 6% and is convertible after 6 months from the date of the note into stock of either PSSI or the Company at 50% discount to the 10 day trailing trading value of the Company's common stock.

On March 5, 2018, the Company subsidiary PSSI entered into a note agreement with Premium Marketing Associates, LLC for \$25,000. The funds were designated for use in a marketing agreement with the Edward Fitzgerald Group for raising funds for PSSI. The note was to be repaid from investment fund generated by the Fitzgerald group plus 15% of the funds generated are paid to the investor.

On September 6, 2018, the company received \$250,000 upon issuance of a debenture related to a certain securities purchase agreement with Ionic Ventures. The debenture bears interest at 15% per annum. The 15% original issue discount debenture (face amount \$275,000) is for a six-month period and is convertible into shares of the company's common stock at an initial conversion price of \$0.60 per share. Also, the debenture holder received 100,000 common stock purchase warrants to purchase DTII common stock, which may be exercised for up to three years at an initial exercise price of \$0.70 per share. The note and all subsequent notes from Ionic contain reset provisions. Based on the reset provision, the conversion price as of April 30, 2021 was \$0.0084 per share and the number of warrants increased to 8,333,333. The Company did not meet its payment obligation so Ionic granted an extension for an additional \$30,000 being added to the principal. As of July 31, 2021 the note and interest was converted to common stock and considered paid in full.

On October 4, 2018, the Company entered into an agreement with RAB Investments AG to consolidate all RAB outstanding notes issued by the Company prior to October 31, 2018. Under the terms of the agreement the Company agreed to accept a six percent interest to be calculated on all the notes since their inception. The agreement resulted in a new note for \$330,626 which included the additional interest and retired the original notes. As of July 31, 2021, the outstanding balance of the notes were \$310,627 plus interest.

On May 22, 2018, the Company signed an agreement with an investor for a loan of \$25,000. The note is convertible 180 days after the date of the note to shares of the Company's common stock at \$0.75 per share or a 25% discount to the 10 day trading average prior to conversion; whichever is lower. The total amount of the loan must be converted on the date of conversion. The note has an annual interest rate of 6%.

On March 26, 2019, the Company entered into an agreement with Iconic Ventures, LLC to consolidate all RAB outstanding notes issued by the Company prior to October 31, 2018. Under the terms of the agreement the Company agreed to accept a six percent interest to be calculated on all the notes since their inception. In addition, the Company issued 300,000 three year warrants with a strike price of \$0.70 per share. The note and all subsequent notes from Ionic contain reset provisions Based on the reset provision the conversion price as of April 30, 2021 was \$0.0084 per share and the number of warrants increased to 25,000,000. The agreement resulted in a new note for \$330,626 which included the additional interest and retired the original notes. As of July 31, 2021, the balance of the note was zero.

On January 10, 2020, the Company issued a convertible note to Crown Bridge Partners, LLC with a principal amount of \$171,000 and a prorate original discount of \$15,000. The first tranche of the note received by the Company was a face value of \$57,000 and net amount received of \$50,000. Each tranche of the note matures twelve months from receipt of the tranche and bears interest at the rate of 10% per annum with a default rate of 15%. The note is convertible into common stock of the Company after 180 days at the rate of 60% of the lowest trading price for twenty days prior to conversion. The note may be repaid to the issuer within 180 days from issuance at variable premium rates of 125% above face value. As of July 31, 2021 the balance of the note is \$3,323 plus interest.

On January 13, 2020, the Company issued an additional note to Ionic Ventures, LLC for \$220,000 with an original discount of \$20,000. The note is part of a securities purchase agreement dated August 31, 2018. The note matures on June 20, 2020 bearing interest at the rate of 15% per annum. The note is convertible into common stock of the Company at \$0.60 per share or of 60% of the lowest trading price for twenty days prior to conversion, whichever is the lowest. AS of July 31, 2021 the balance of the note was \$199,000 plus interest.

On October 16, 2020, the Company issued an additional note to Ionic Ventures, LLC for \$272,500 with an original discount of \$20,000. The note is part of a securities purchase agreement dated August 31, 2018. The note matures on January 1, 2022 bearing interest at the rate of 8% per annum. The note is convertible into common stock of the Company at \$0.50 per share or the lowest VWAP pricing 5 days prior to conversion, whichever is the lowest. AS of July 31, 2021 the balance of the note is \$282,500 plus interest.

During the three months ended July 31, 2020 the Company issued 10,635,623 shares of common stock with a value of \$131,509 for debt.

During the three months ended July 31, 2021 the Company issued 14,174,884 shares of common stock with a value of \$101,838 for the conversion of debt.

As of July 31, 2021, and April 30, 2020, the convertible debt outstanding, net of discount, was \$814,950 and \$805,890, respectively.

NOTE – 7: FAIR VALUE MEASUREMENTS AND DERIVATIVE LIABILITIES

As defined in (Financial Accounting Standards Board ASC 820), fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilized the market data of similar entities in its industry or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based on the observability of those inputs. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

The three levels of the fair value hierarchy are as follows:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, marketable securities and listed equities.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reported date and includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category generally include non-exchange-traded derivatives such as commodity swaps, interest rate swaps, options and collars.
- Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management’s best estimate of fair value.

As of July 31, 2021, the Company believes the amounts reported for cash, payables, accrued liabilities and amounts due to related parties approximate their fair values due to the nature or duration of these instruments.

The following table represents the change in the fair value of the derivative liabilities during the nine months ended July 31, 2021:

| | Level 1 | Level 2 | Level 3 |
|--|---------|---------|---------------------|
| Balance at April 30, 2021 | \$ — | \$ — | \$ 910,511 |
| Retirement of derivative at conversion | — | — | (170,099) |
| Change in fair value of derivative liability | — | — | 525,295 |
| Balance at July 31, 2021 | \$ — | \$ — | <u>\$ 1,265,707</u> |

The estimated fair value of the derivative liabilities at July 31, 2021 was calculated using the Binomial Lattice pricing model with the following assumptions:

| | |
|-------------------------|---------------|
| Risk-free interest rate | 0.25% |
| Expected life in years | 0.25 to 0.678 |
| Dividend yield | 0% |
| Expected volatility | 400.00% |

NOTE – 8: EQUITY

Common Stock

On June 7, 2021, the Company filed an amendment to the Articles of Incorporation increasing the authorized shares of common stock to 600,000,000 with a par value of \$0.0001 and the total number of preferred shares at 20,000,000, par value \$0.0001.

During the three months ended July 31, 2020 the Company issued 10,635,623 shares of common stock with a value of \$131,509 for debt.

During the three months ended July 31, 2021 the Company issued 14,174,884 shares of common stock with a value of \$101,838 for debt.

During the three months ended July 31, 2021 the Company issued 13,043,560 shares of common stock for the conversion of 94,405 series C preferred shares with a value of \$125,400.

Preferred Stock

The Company has 20,000,000 shares of \$0.0001 par value preferred stock authorized and has designated Series A, B and C preferred stock. Each share of the Series A preferred stock is convertible into ten common shares and carries voting rights on the basis of 100 votes per share. Each share of the Series B preferred stock is convertible into ten common shares and carries no voting rights. Each Series C is convertible into 10 shares of common stock and has no voting rights.

On May 20, 2019, the Company approved the issuance of 2,831,350 shares of its common stock for the conversion of 283,135 for Series A preferred with a value of \$28. As of July 31, 2021 the common shares had not been issued and the conversion was not completed.

On November 13, 2020 and corrected on December 1, 2020 the Company designated 1,500,000 preferred shares as Series C nonvoting preferred shares. The shares are convertible into common stock with terms and conditions set by the Company's Board of Directors.

On December 8, 2020, the Company issued 120,000 shares Series C nonvoting preferred for \$100,000 in cash. The Company may redeem the shares up to 180 days after issuance at a premium up to 120%. The shares are convertible 180 days after the purchase at 80% of the lowest trading price 15 days prior to conversion

On February 16 and April 21, 2021, the Company issued 124,700 shares Series C nonvoting preferred for \$107,250 in cash. The Company may redeem the shares up to 180 days after issuance at a premium up to 120%. The shares are convertible 180 days after the purchase at 80% of the lowest trading price 15 days prior to conversion

On June 4, 2021, the Company issued 114,500 shares Series C nonvoting preferred for \$98,750 in cash. The Company may redeem the shares up to 180 days after issuance at a premium up to 120%. The shares are convertible 180 days after the purchase at 80% of the lowest trading price 15 days prior to conversion

On November 20, 2020, the Company filed a certificate of amendment to their articles of incorporation increasing the authorized shares to 400,000,000 of common stock, par value \$0.0001 and 20,000,000 shares of preferred stock, par value \$0.0001. The preferred shares were designated 5,000,000 series A, 5,000,000 series B and 1,500,000 series C. Series A is convertible into 10 shares of common stock and has 100 votes per preferred share. Series B is convertible into 10 shares of common stock with no voting rights. Series C is convertible into common stock of the Company as set by the board of directors with no voting rights.

During the three months ended July 31, 2021 the Company issued 13,043,560 shares of common stock for the conversion of 94,405 series C preferred shares with a value of \$125,400.

As of July 31, 2021 the Company had 2,925,369 Series A, 520,000 Series B and 261,795 Series C preferred share issued and outstanding.

NOTE – 9: STOCK OPTIONS AND WARRANTS

A summary of the Company’s stock options and warrants as of July 31, 2021, and changes during the three months then ended is as follows:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contract Term (Years) | Aggregate Intrinsic Value |
|---|------------|---------------------------------------|---|---------------------------------|
| Outstanding at April 30, 2021 | 33,783,333 | \$ 0.037 | 2.48 | \$ 239,861 |
| Granted | - | \$ - | — | — |
| Exercised | - | \$ - | — | — |
| Forfeited or expired | (100,000) | \$ - | — | — |
| Outstanding and exercisable at July 31, 2021 | 33,683,333 | \$ 0.029 | 2.23 | \$ 377,043 |

NOTE – 10: COMMITMENTS AND CONTINGENCIES

The Company has the following material commitments as of July 31, 2021:

- a) Administration Agreement with EMAC Handel’s AG, renewed effective May 1, 2017 for a period of three years and amended May 1, 2021. Monthly fee for administration services of \$7,500, office rent of \$250 and office supplies of \$125. Extraordinary expenses are invoiced by EMAC on a quarterly basis. The fee may be paid in cash and or with common stock.
- b) Service Agreement signed April 25, 2016 with Merrill W. Moses, President, Director and CEO, for services of \$7,500 per month beginning May 2016 and the issuance of 233 restricted common shares of the Company. The fees may be paid in cash and or with common stock.
- c) Service Agreement signed May 20, 2016 with Charles C. Hooper, Director, for services of \$5,000 per month beginning May 2016 and the issuance of 233 restricted common shares of the Company. The fees may be paid in cash and or with common stock.
- d) Administration and Management Agreement of PSSI signed January 12, 2017 with EMAC Handel Investments AG, for general fees of \$7,500 per month, office rent of \$250 and telephone of \$125 beginning January 2017 and amended May 1, 2021, the issuance of 2,000 common shares of PSSI and a 12% royalty calculated on defines sales revenues payable within 10 days after the monthly sales.
- e) Service Agreement of PSSI signed January 12, 2017 with Merrill W. Moses, President, Director and CEO, for services of \$2,500 per month beginning February 2017 and the issuance of 333 common shares of PSSI.
- f) Business Development and Consulting Agreement of PSSI signed January 15, 2017 with WSMG Advisors, Inc., for finder’s fees of 10% of funding raised for PSSI and the issuance of 1,000 common shares of PSSI.

On May 30, 2018, the Company and Control Capture Systems, LLC amended their license agreement as follows.

- Royalty payments of 5% of gross sale from the license agreement will be calculated and paid quarterly with a minimum of \$12,500 paid each quarter.
- All payment will be in US dollars or stock of the Company and or its subsidiary. The value of the stock will be a discount to market of 25% of the average trading price for the 10 days prior to conversion. The number of shares received by Control Capture prior to any reverse split are anti-dilutive.
- Invoices for parts and materials will be billed separate of the license fees noted above.

NOTE 11: LEASE

On October 16, 2018, the Company signed a three year lease for the Company's warehouse space effective on November 1, 2018 through October 31, 2021. The lease is for approximately 4,700 square feet of warehouse space with a gross monthly rental cost including common area charges of \$3,250. The lease was terminated by the landlord on August 30, 2019 with the outstanding balance due of \$11,230.

NOTE 12: SUBSEQUENT EVENTS

On August 24, the Company converted 20,000 shares of series C preferred for 2,750,000 shares of common stock.

On August 25, the Company converted 20,000 shares of series C preferred for 2,902,778 shares of common stock.

On August 26, 2021 the Company issued 91,500 shares of Series C Preferred Stock with a value of \$78,750 for cash.

On August 27, the Company converted 3,243,854 shares of series C preferred for 3,243,854 shares of common stock.

The Company has evaluated subsequent events to determine events occurring after July 31, 2021 through September 20, 2021 that would have a material impact on the Company's financial results or require disclosure and have determined none exist other than the ones disclosed above.

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following information should be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q.

Defense Technologies International Corp. (the "Company ") was incorporated in the State of Delaware on May 27, 1998. Effective June 15, 2016, the Company changed its name to Defense Technologies International Corp. from Canyon Gold Corp. to more fully represent the Company's expansion goals into the advanced technology sector.

On October 19, 2016, the Company entered into a Definitive Agreement with Controlled Capture Systems, LLC ("CCS"), representing the inventor of the technology and assets previously acquired by DTC, that included a new exclusive Patent License Agreement and Independent Contractor agreement. Under the license agreement with CCS, the Company acquired the world-wide exclusive rights and privileges to the CCS security technology, patents, products, and improvements. The Company agreed to pay CCS an initial licensing fee of \$25,000 and to pay ongoing royalties as defined in the Definitive Agreement.

On May 30, 2018, the Company and Control Capture Systems, LLC amended their license agreement as follows (1) Royalty payments of 5% of gross sale from the license agreement will be calculated and paid quarterly with a minimum of \$12,500 paid each quarter (2) All payment will be in US dollars or stock of the Company and or its subsidiary. The value of the stock will be a discount to market of 25% of the average trading price for the 10 days prior to conversion. The number of shares received by Control Capture prior to any reverse split are anti-dilutive.

Effective January 12, 2017, Passive Security Scan, Inc. ("PSSI") was incorporated in the state of Utah as subsidiary controlled by the Company. The Company transferred to PSSI its exclusive world-wide license to the defense, detection and protection security products previously acquired by the Company. The Company owns 79.8% of PSSI with 20.2% acquired by several individuals and entities. The Company plans to continue the development of the technology. All sales and marketing activities are through PSSI.

The extent to which the COVID-19 pandemic may directly or indirectly impact our business, financial condition, and results of operations is highly uncertain and subject to change. We considered the potential impact of the COVID-19 pandemic on our estimates and assumptions and there was not a material impact to our consolidated financial statements as of and for the three months ended July 31, 2021.

The Company's security products are licensed from CCS and developed by the company designed for personal and collateral protection. Products derived from this technology are intended to provide passive security scanning units for either walk-through or hand-held use to improve security for schools and other public facilities. Passive Portal units use electromagnets and do not emit anything (such as x-rays) through the subject. We have also completed a prototype with optional "Digital Imaging", which will give the user of the scanner the ability to recall the entire traffic passing through the scanner at any time thereafter.

As of May 19, 2020 the Company added an IR Camera for detection of elevated body temperatures and is presently offering three products:

- PASSIVE PORTAL – Screens for Weapons only;
- PASSIVE PORTAL with EBT – Screens for Weapons and elevated body temperature;
- EBT Station – Screens for elevated body temperature only.

Forward Looking and Cautionary Statements

This report contains forward-looking statements relating to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expect,” “intend,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continue,” or similar terms, variations of such terms or the negative of such terms. These statements are only predictions and involve known and unknown risks, uncertainties and other factors. Although forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment, actual results could differ materially from those anticipated in such statements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Results of Operations

During the three months ended July 31, 2021 the Company had no revenue.

Our operating expenses for the three months ended July 31, 2021 was \$204,280 compared to \$189,708 for the same three months period in 2020. The increase was due primarily to higher consulting costs, which were \$135,000 for the three months periods ending July 31, 2021. The Company recorded depreciation of \$2,915 for the three month periods ended July 31, 2021 and 2020, respectively.

Interest expenses incurred in the three months ended July 31, 2021 was \$25,442 compared to \$34,860 for the three month period in 2020.

Change in derivative liability resulted in a loss of \$525,295 for the three months period ended July 31, 2021, compared to a gain of \$66,056 for the same period in 2020. We estimate the fair value of the derivative for the conversion feature of our convertible notes payable using the American Binominal Lattice pricing model at the inception of the debt, at the date of conversions to equity, cash payments and at reporting date, recording a derivative liability, debt discount and a gain or loss on change in derivative liability as applicable. These estimates are based on multiple inputs, including the market price of our stock, interest rates, our stock price volatility, and variable conversion prices based on market prices as defined in the respective loan agreements. These inputs are subject to significant changes from period to period; therefore, the estimated fair value of the derivative liability will fluctuate from period to period and the fluctuation may be material.

Total other income and expense for the three period ended July 31, 2021 was expense of \$640,777 compared to other expense of \$103,114 for the three months period in 2020. The variance is primarily due to the change in derivative liability and interest in the three months periods in both 2021 and 2020 plus finance costs and interest attributed to note discount in, 2021 versus the same period in 2020.

Net income and loss before non-controlling interest for the three months period ended July 31, 2021 was a net loss of \$845,058 compared net loss of \$292,823 for the same period in 2020. After adjusting for our consolidated subsidiary, net loss and net income for the three month period ended July 31, 2021 were a net loss of \$ 835,045 compared to a net loss of \$281,996 for the same period in 2020, respectively.

Liquidity and Capital Resources

At July 31, 2021, the Company had total current assets of \$146,520, and total current liabilities of \$4,636,354, resulting in a working capital deficit of \$4,489,834. Included in our current liabilities and working capital deficit at July 31, 2021 are derivative liabilities totaling \$1,265,707 related to the conversion features of certain of our convertible notes payable, convertible notes of \$814,950, net of discount, payables due related parties of \$1,310,599, accounts payable and accrued expense of \$533,274 and notes payables of \$377,542. We anticipate that in the short-term, operating funds will continue to be provided by related parties and other lenders.

As of July 31, 2021, we had total convertible notes payable of \$814,950, net of discount. Several of the note agreements require repayment through conversion of principal and interest into shares of the Company's common stock. We anticipate, therefore, converting these notes payable into shares of our common stock without the need for replacement financing; however, there can be no assurance that we will be successful in accomplishing this.

During the three months ended July 31, 2021, net cash used in operating activities was \$96,834 compared to cash used of \$70,299 in the same period in 2020. Net cash used in 2021 consisted of net loss of \$845,058, a loss in derivative liability of \$525,295 and increase in payables to related parties of \$60,781 and accounts payable of \$84,943.

During the three months ended July 31, 2021, net cash provided by financing activities was \$98,750 consisting of the sale of Series C preferred shares for \$98,750.

We have had minimal revenue and paid expenses and costs with proceeds from the issuance of securities as well as by loans from investor, stockholders and other related parties.

Our immediate goal is to provide funding for the completion of the production of the Offender Alert Passive Scan licensed from CCS. The Offender Alert Passive Scan is an advanced passive scanning system for detecting and identifying concealed threats.

We have built 11 Passive Portal units, two of which were used in the previously announced BETA Test at a school near Austin Tx and 5 were sold. The units have been tested multiple times and performed with a 100% success every time. We are confident that upon the successful conclusion of the Beta Test, we will receive the first orders from school districts that will generate initial revenues to the Company.

We believe a related party and other lenders will provide sufficient funds to carry on general operations in the near term and fund DTC's production and sales. We expect to raise additional funds from the sale of securities, stockholder loans and convertible debt. However, we may not be successful in our efforts to obtain financing to carry out our business plan.

See the notes to our condensed consolidated financial statements for a discussion of recently issued accounting pronouncements that we have either implemented or that may have a material future impact on our financial position or results of operations.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

This item is not required for a smaller reporting company.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our management including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) ("Exchange Act"). Based on this evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were not effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, in a manner that allows timely decisions regarding required disclosures.

We operate with a limited number of accounting and financial personnel. Although we retain the services of an experienced certified public accountant, we have been unable to implement proper segregation of duties over certain accounting and financial reporting processes, including timely and proper documentation of material transactions and agreements. We believe these control deficiencies represent material weaknesses in internal control over financial reporting.

Despite the material weaknesses in financial reporting noted above, we believe that our consolidated financial statements included in this report fairly present our financial position, results of operations and cash flows as of and for the periods presented in all material respects.

Changes in Internal Control over Financial Reporting. There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

There are no material pending legal proceedings to which we are a party or to which any of our property is subject and, to the best of our knowledge, no such actions against us are contemplated or threatened.

Item 1A. Risk Factors

This item is not required for a smaller reporting company.

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

On June 4, 2021, the Company issued 114,500 shares Series C nonvoting preferred for \$98,750 in cash.

During the three months ended July 31, 2021 the Company issued 14,174,884 shares of common stock with a value of \$101,838 for debt.

During the three months ended July 31, 2021 the Company issued 13,043,560 shares of common stock for the conversion of 94,405 series C preferred shares with a value of \$125,400.

The issuances of the Company's common stock set forth above were in private transactions to a persons familiar with the Company's business, pursuant to an exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933.

Item 3. Defaults Upon Senior Securities

This item is not applicable.

Item 4. Mine Safety Disclosure

This item is not applicable.

Item 5. Other Information

Not applicable

Item 6. Exhibits

The following exhibits are filed as part of this report:

| Exhibit No. | Description of Exhibit |
|--------------------|--|
| 31.1 | <u>Section 302 Certification of Chief Executive Officer and Chief Financial Officer</u> |
| 32.1 | <u>Section 1350 Certification of Chief Executive Officer and Chief Financial Officer</u> |
| 101 INS* | XBRL Instance Document |
| 101SCH* | XBRL Taxonomy Extension Schema |
| 101 CAL* | XBRL Taxonomy Extension Calculation Linkbase |
| 101 DEF* | XBRL Taxonomy Extension Definition Linkbase |
| 101 LAB* | XBRL Taxonomy Extension Label Linkbase |
| 101 PRE* | XBRL Taxonomy Extension Presentation Linkbase |

* The XBRL related information in Exhibit 101 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Exchange Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

SIGNATURES

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

DEFENSE TECHNOLOGIES INTERNATIONAL CORP.

Date: September 20, 2021

By: /S/ MERRILL W. MOSES

Merrill W. Moses
Chief Executive Officer
Acting Chief Financial Officer