Investor Report

Fiscal 2008, Quarter Two

Interim Results for the quarter ended December 31, 2007 with Comparative Results for 2006

MANAGEMENT DISCUSSION AND ANALYSIS

Mission
...we bring everyday heroes home safely.™

The following discussion is intended to assist readers in better understanding and evaluating Pacific Safety Products ("PSP" or the "Company") history, business environment, strategies, performance and risk factors as well as the financial condition and operations for the period ended December 31, 2007. It is recommended the information provided be read in conjunction with PSP's consolidated financial statements and notes for the six months ended December 31, 2007, message to shareholders and other management discussions included in the Company's 2007 annual report. The information in this report includes information available to February 21, 2008, and includes forward-looking statements based on current expectations and is subject to risks and uncertainties. Many internal and external factors may cause actual results to differ materially. Unless otherwise indicated all dollar amounts shown are expressed in Canadian dollars.

Management is responsible for the preparation and integrity of the consolidated financial statements, including maintenance of appropriate information systems, procedures and internal controls, and to ensure that information used internally or disclosed externally, including the consolidated financial statements and management's discussion and analysis, is complete and reliable.

OVERVIEW OF THE BUSINESS
PSP is an established industry leader in the development, production, distribution and sale of high-performance and high-quality protective products for the defence and security market. These products include body armour to protect against ballistic, stab and fragmentation threats, ballistic blankets to reduce blast effects, and protective products against chemical and biological hazards. PSP is the largest armour manufacturer in Canada and supplies its products to the Canadian Department of National Defence (DND), federal government agencies and major law enforcement organizations across the country. The Company also provides specialized law enforcement and safety products through APS Distributors Ltd., a wholly-owned subsidiary that services law enforcement and public safety agencies across Canada. The Company, through its wholly owned subsidiary Sentry Armor Systems Inc., provides body armour products to U.S. based law enforcement and private security firms.

The Company provides quality protection solutions by effectively integrating the latest technologies to serve our customers' needs. Founded in 1984, PSP has grown to include more than 246 employees at our Canadian and U.S. facilities. These facilities are equipped with complete design, production and research capabilities.

The financial data has been prepared in accordance with Canadian generally accepted accounting principles and the Company's reporting currency is the Canadian dollar. Pacific Safety Products Inc. is a reporting issuer in Canada in the provinces of British Columbia, Alberta and Ontario. The Company trades on the TSX Venture Exchange under the symbol PSP. Additional regulatory information relating to Pacific Safety Products Inc. can be found at the System for Electronic Document Analysis and Retrieval ("SEDAR") web site at www.sedar.com.

Market Conditions
The defence industry sector serviced by PSP products is experiencing significant expansion as a result of on-going military engagements through-out the world and heightened risk of terrorist events. Concern for the protection of deployed forces has driven demand for tactical armour and fragmentation protection for both people and equipment. PSP continues to provide tactical armour and load carriage equipment to various units of Canada's DND. Under DND’s Clothe the Soldier Program, PSP is delivering Fragmentation Protection Vests and the Horizon 1 Chem/Bio Coveralls. Two contract amendments were issued over the past year increasing quantities on the Fragmentation Protection Vest contract. DND has commenced with its Integrated Soldier System Program (ISSP) which is intended to improve situational awareness for the dismounted soldier.

PSP enjoys a dominant position in the Canadian domestic market for law enforcement and private security. The Company has experienced steady demand within this well established market. In addition, PSP has seen strong growth in the requirement for body armour for new customers such as the Canadian Border Services Agency and various correctional agencies.

Demand for soft armour products remains strong in the United States. To better address this market, PSP has established a U.S. subsidiary, Sentry Armor Systems Inc. Sentry currently manufactures and sells tactical clothing and soft armour based on the PSP product line. In the previous fiscal year the Company purchased the net assets of Gator Hawk Armor Inc, an established body armor manufacturer based out of California. With this purchase the Company acquired a recognized product line and significant distributor list.

Given current industry and market conditions, demand for products serving the security and defense sector is expected to grow steadily and PSP is prepared to provide effective protective solutions for its customers by seeking out the latest technologies to serve their needs.

HIGHLIGHTS OF THE QUARTER

During the quarter ended December 31, 2007 the Company successfully completed the purchase of APS Distributors Ltd. (APS). APS is engaged in the sale and distribution of hard and soft goods to the Law Enforcement and First Responder markets across Canada. Strategically this acquisition provides PSP with an established, profitable business in one of the Company's core markets, offering complementary products.

The Company also announced over $20 million in contract awards for the Canadian Law Enforcement market and Federal government to be manufactured over the next 36 months. APS announced a $1 million contract extension by one of its premier Canadian customers. This contract uplift brings the total contract value to an estimated $3 million. The additional $1 million of revenue is expected to be fulfilled within the next 12 months. The contract has an additional 2 more option years available on it.

The United States operation in Dover TN has made marked improvement in manufacturing efficiency over the past few quarters and is now generating positive cash flow. Quarter over quarter sales continue to strengthen as a result of increased distribution channels and a broader product line. Monthly revenue from the US operations is now equal to the previous year's quarterly output. In the core business of soft body armour, the US market now accounts for 35% of total sales.

In October 2007 the Company announced a decision to move the corporate head office to the Ottawa area. This decision was made to address the fact that the concentration of the Company's main customers are in Central Canada and its primary manufacturing facility is located in Arnprior, ON. Proximity of the corporate office to the Company's wholly-owned subsidiaries in Bedford, NS and Dover, TN, USA was considered important to support the growth strategy. A subsequent decision was made to close the remaining manufacturing operation in Kelowna, BC to address excess capacity issues.

FINANCIAL HIGHLIGHTS

CONSOLIDATED RESULTS OF OPERATIONS

SUMMARY OF OPERATIONS	***THREE MONTHS ENDED DECEMBER 31, 2007***	*THREE MONTHS ENDED DECEMBER 31, 2006*	***SIX MONTHS ENDED DECEMBER 31, 2007***	*SIX MONTHS ENDED DECEMBER 31, 2006*
SALES	**$ 7,282,922**	$ 8,512,038	**$ 13,948,082**	$ 17,430,984
COST OF SALES	**5,954,997**	6,398,288	**11,113,827**	13,180,789
GROSS MARGIN	**1,327,925**	2,113,750	**2,834,255**	4,250,195
EXPENSES	**2,466,564**	1,638,526	**4,189,850**	3,221,966
INCOME (LOSS) BEFORE OTHER ITEMS AND TAXES	**(1,138,639)**	475,224	**(1,355,595)**	1,028,229
OTHER ITEMS	**744,673**	-	**505,302**	-
INCOME (LOSS) BEFORE INCOME TAXES	**(1,883,312)**	475,224	**(1,860,897)**	1,028,229
INCOME TAX EXPENSE (RECOVERY)	**(518,829)**	297,306	**(615,370)**	607,814
INCOME (LOSS)	**$ (1,364,483)**	$ 177,918	**$ (1,245,527)**	$ 420,415
BASIC AND FULLY DILUTED INCOME (LOSS) PER SHARE	**$ (0.054)**	$ 0.009	**$ (0.050)**	$ 0.022
WEIGHTED AVERAGE BASIC COMMON SHARES ISSUED AND OUTSTANDING	**25,091,728**	19,180,397	**24,677,351**	19,174,420

OPERATIONS

For the three month period ending December 31, 2007 revenue decreased $1.2 million to $7.3 million, gross margin as a percentage of revenue decreased from 24.8% to 18.2% and sales, general and administration expenses increased $0.9 million to $2.5 million resulting in a net loss before other items and taxes of $1.1 million compared to net income before other items and taxes of $0.5 million in the comparative period ended December 31, 2006.

The $1.2 million decrease in revenue is mainly attributable to delays in contract awards and an overall decrease in sales volumes in the Company's core Canadian law enforcement market. The Company experiences sales cycles that can be dependent on the award of contracts by major police agencies and federal government departments. These cycles are, at times, unpredictable and may cause variations in revenue and profitability from quarter to quarter.

The increase of $0.9 million in sales, general and administration expenses is attributable to an increase in marketing efforts and staffing levels, primarily to build development and operating infrastructure.

Revenue

Revenue generated from Canadian operations was $5.8 million, which includes two months of revenue from APS Distributors Ltd.
Revenue generated from the US operations was $1.5 million. Both figures reflect the elimination of intercompany sales.

Cost of Sales and Gross Margin
PSP's consolidated gross margin for the quarter decreased to 18.2% of revenue as compared to 24.8% in the same quarter last year. This is a direct result of lower revenue generated to absorb fixed manufacturing overhead costs.

Sales, Research and General Administration Expenses (SG&A)
The total of these expenses for the second quarter was $2.5 million compared to $1.6 million in the same quarter last year, an increase of $0.9 million. As a percentage of revenue, these expenses increased to 33.9% compared to 19.2%. The increase in these expenses is in line with management's expectations as they continue to invest in the Company's infrastructure and position the Company into new markets and product lines.

Research and development (R&D) expenditures for the quarter totaled $0.02 million compared to $0.05 million in quarter two last year. Expenses included in this category include the costs related to ballistic research materials, testing, product designs, patterns, labour and overhead. During the quarter, management deferred $0.03 million in R&D costs relating to new product development projects that have known markets and are expected to come into commercial production at a future date.

Amortization of property, plant and equipment remained the same at $0.1 million in quarter two compared to $0.1 million in the same quarter last year. Amortization of other assets increased to $0.2 million compared to $0.07 million in quarter two, fiscal 2007. The increase in amortization of other assets relates to the intangible assets arising from the purchase of the net assets of Gator Hawk Armor Inc. in the latter half of fiscal 2007 and the purchase of APS Distributors Ltd. in fiscal 2008.

During the quarter, management increased the operating line from $2 million to $5 million to facilitate the purchase of APS Distributors Ltd. Interest on the operating line for the second quarter was $0.04 million compared to nil in the second quarter of fiscal 2007.

Interest on long-term debt for Q2 $0.02 million compared to $0.07 million in the same quarter last year. In July 2007, the Company sold its Kelowna, BC manufacturing facility and repaid the long-term debt of $1.7 million associated with the property. The balance of the subordinated debenture at December 31, 2007 is $0.4 million compared to $0.8 million at June 30, 2007 and has been reclassified as current debt.

Relocation Expenses
During the quarter management of PSP announced it was moving its head office located in Kelowna, BC to the Ottawa region. Management subsequently decided to close the remaining manufacturing operations in Kelowna by the end of fiscal 2008. Expenses amounting to $980,000 relating to severance, retention and other relocation costs have been accrued in the current quarter.

Gain on sale of building
In July 2007, the Company sold and leased back its Kelowna, BC manufacturing facility. The gain on the sale of the building is being recognized over the life of the lease. At December 31, 2007, the Company has recognized one third of the gain.

Income Taxes
Income taxes were calculated at an effective rate of 33.50% for Canadian operations and 40.5% for U.S. operations for the quarter ended December 31, 2007. Income tax recovery on Canadian losses for the current quarter varies from the amount that would be computed by applying the combined federal and provincial tax rate as a result of the tax effect of items not deductible for tax purposes. The future tax benefit of the U.S. losses has not been recorded in the quarter due to the lack of earnings history to support recognition at this time.

Income after Taxes
The Company reported a net loss after taxes of $1.4 million for the first quarter (2007 Q2 - $0.2 million) which resulted in basic and diluted loss per share of $(0.054) (2007 Q2 - $0.009). The difference in earnings from this year's Q2 to last year's Q2 is predominantly due to lower sales volume as a result of delays in contract awards and the costs relating to the relocation of the head office to the Ottawa area.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)
EBITDA for the quarter ended December 31, 2007 was $(0.8) million compared to $0.7 million for the quarter ended December 31, 2006. The calculation of EBITDA includes the gain on sale of building of $0.2 million and relocation expenses of $1.0 million. The reason for the significant decrease in EBITDA this quarter over Q2 2007 is due to lower sales volume and an increase in sales and general administrative expenses.

CONSOLIDATED QUARTERLY RESULTS

	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Sales	**$7,282,922**	$6,665,160	$11,547,177	$10,585,366	$8,512,038	$8,918,945	$9,369,317	$9,195,213
Net income (loss)	**$(1,364,483)**	$358,327	$283,037	$355,325	$177,918	$242,497	$741,766	$742,182
Basic and fully diluted earnings per share	**$(0.054)**	$0.015	$0.012	$0.018	$0.009	$0.013	$0.038	$0.039

In previous years the Company had available tax loss carryforwards to be applied against taxable income. As the Company continued to be profitable the tax loss carryforwards were eventually fully applied. In Q3 and Q4 of fiscal 2006, the net income reflects the use of these tax loss carryforwards. In fiscal 2007 the tax benefits had been fully applied and tax expense at applicable rates was recorded.

Cash Flow
Cash flow used by operating activities was $2.9 million compared to $0.01 million of cash generated in the same quarter last year. The Company also used $4.1 million for investing activities, including the purchase of APS Distributors Ltd. compared to $0.1 million used in the same quarter last year. Financing activities decreased cash by $1.0 million as a result of the repayment of the long term debt associated with the Kelowna building, offset by $1.0 million in new loan proceeds and the proceeds from the issuance of shares from the exercise of employee stock options . This compares to $0.05 million used by financing activities in the same quarter last year.

CASH FLOW	***THREE MONTHS ENDED DECEMBER 31, 2007***	*THREE MONTHS ENDED DECEMBER 31, 2006*	***SIX MONTHS ENDED DECEMBER 31, 2007***	*SIX MONTHS ENDED DECEMBER 31, 2006*
In millions				
Cash flow from (used for) continuing operations	**$ (2.9)**	$ -	**$ (1.4)**	$ 0.3
Investing activities and capital expenditures	**$ (4.1)**	$ (0.1)	**$ (1.5)**	$ (0.3)
Financing activities	**$ 1.0**	$ (0.05)	**$ (1.0)**	$ (0.5)
	$ (6.0)	$ (0.2)	**$ (3.9)**	$ (0.5)

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL POSITION

AS AT	***DECEMBER 31, 2007***	*JUNE 30, 2006*
In millions		
Cash and cash equivalents	**$ (3.0)**	$ 0.9
Working capital	**$ 2.0**	$ 5.8
Long-term debt (long-term portion only)	**$ 1.0**	$ 1.9
Shareholders' equity	**$ 15.6**	$ 15.6

WORKING CAPITAL
At December 31, 2007, PSP's working capital was $2.0 million compared to $5.8 million at June 30, 2007. During the quarter, the Company increased its operating line to $5.0 million to fund the acquisition of APS Distributors Ltd.

Accounts Receivable
Accounts receivable at December 31, 2007 decreased $0.61 million to $6.65 million from $7.3 million at June 30, 2007. Less than 4% of total receivables are over 90 days and management has not identified any bad debts.

Inventory
Inventory at December 31, 2007 increased $2.2 million to $6.2 million compared to $4.0 million at June 30, 2007. The inventory balance at December 31, 2007 includes the inventory balance for APS Distributors Ltd., in addition to the increased raw materials on hand for the Horizon One and FPV programs. Fluctuations in inventory may occur due to the timing of contract wins and availability of certain raw materials.

Bank Indebtedness
The Company has in place a $5.0 million operating line of credit with a Canadian Chartered bank. At December 31, 2007 the Company had a balance of $3.4 million outstanding on this line of credit.

Bank Covenants
At December 31, 2007 and June 30, 2007 , the Company was compliant with all covenants set out by its lenders.

Investment Tax Credits Receivable (ITC)
The Company has accumulated investment tax credits receivable relating to scientific research and development expenses incurred in previous periods. These ITC's will be used to reduce taxes payable in future periods. At December 31, 2007 the Company reported ITC's of $50,000 (June 30, 2007 - $58,000).

Future Income Taxes
Loss carry forwards of approximately $0.3 million for the Canadian operations have been recognized in the current quarter. Loss carry forwards of approximately $1.8 million USD for the U.S. operation, Sentry Armor Systems Inc, have not been recorded in the quarter due to the lack of earnings history to support these loss carry forward assets being recognized at this time. Future tax assets of both the Canadian and U.S. operations are assessed on a quarterly basis.

PROPERTY, PLANT AND EQUIPMENT AND OTHER ASSETS
During the quarter, the Company invested $0.1 million in property, plant and equipment, $0.03 million in new product development costs and intangible assets, other than the intangibles acquired as a result of the purchase of APS Distributors Ltd. As a result of this acquisition, the Company reported intangible assets of $1.8 million; comprising Customer Relationships with a fair value of $1.7 million and Customer Backlog with a fair value of $0.1 million. Segmented information on these assets can be found in Note 15 of the December 31, 2007 interim financial statements.

LONG-TERM DEBT
During the quarter the Company entered into a long term debt agreement with Business Development Bank of Canada for $1.5 million. At December 31, 2007 the Company had drawn down $1.0 million of the loan with $0.5 million available to be drawn down at a later date.

EQUITY INSTRUMENTS AND CONTRIBUTED SURPLUS
During the quarter, PSP issued 20,995 shares under its Employee Share Ownership Plan for net proceeds of $0.02 million and 238,500 shares for net proceeds of $0.12 million as a result of the exercise of employee stock options. At December 31, 2007, PSP's issued and outstanding shares totaled 25,457,459 compared to 24,197,964 at June 30, 2007.

During the quarter, the Company issued 1,000,000 common shares valued at $1 per share to the former shareholders of APS Distributors Ltd. as part of the $5.0 million purchase price consideration for the outstanding shares of APS.

OFF BALANCE SHEET FINANCING
The Company does not have any significant off balance sheet financing arrangements and there were no significant changes in operating leases from those disclosed in the MD&A for the year ended June 30, 2007.

RELATED PARTY TRANSACTIONS
During the quarter the Company paid $0.59 million (Q2 fiscal 2007 - $0.43 million) in consulting and professional fees to a member of the Board of Directors. These fees were charged to general administration expense. These transactions were all in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value.

FINANCIAL INSTRUMENTS
As disclosed in note 2, the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate, credit and foreign currency risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) At December 31, 2007, the Company had $.98 million (June 30, 2007 - $1.73 million) of long-term floating rate debt.
(b) At December 31, 2007 the Company had $3.1 million (June 30, 2007 - $5.0 million) in accounts receivable due from the Canadian Federal government.
(c) At December 31, 2007 the Company had $0.17 million (June 30, 2007 - $0.8 million) cash on deposit with a Canadian Chartered Bank and $0.08 million cash on deposit with a U.S. Bank (June 30, 2007 - $0.9 million).
(d) Foreign currency exchange rate risk management - a portion of the Company's sales are denominated in foreign currencies and, accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures. The effect of a 1% change in foreign currency exchange rates would have a nominal effect on the financial results of the Company.

RISKS AND UNCERTAINTIES
In the normal course of business, the Company's operations continue to be influenced by a number of internal and external factors, and are exposed to risks and uncertainties, that can affect its business, financial condition and operating results. The activities of the Company are subject to ongoing operational risks including the performance of key suppliers, product performance, government and other industry regulations, and reliance on information systems, all of which may affect the ability of the Company to meet its obligations. The ongoing ability to meet the needs of the market place is dependent on the development and introduction of new products. While management believes its innovation and technology make it a leader in the industry, revenue and results may be affected if products are not accepted in the market place, are not approved by regulatory authorities, or if products are not brought to market in a timely manner.

PSP operates in markets subject to government purchasing patterns and large tenders that are at times unpredictable and create fluctuations in the production load throughout the year. Government purchasing is typically tender driven and subject to competitive bidding. These buying patterns create the necessity of being able to quickly increase and decrease production capacity. PSP has addressed this by using cell based manufacturing in which production staff are grouped into cells. Cells can quickly be added or reduced in order to mitigate the impact of large contracts on regular production of core products. In addition, large contracts often create a situation where a significant portion of the Company's revenue and accounts receivable may be from a small number of customers increasing the risks of economic dependence and concentration of credit.

The Company's working capital position is dependent on the timely collection of accounts receivable, inventory management and scheduled supplier payments. A change in supplier payment terms or slow payment of accounts receivable could adversely affect the Company's liquidity. Management has implemented controls to ensure accounts receivable are current and suppliers payments are within terms.

Changing interest rates could have an effect on earnings. PSP's operating line, with a balance of $3.4 million at December 31, 2007, is a variable rate loan. Foreign exchange rate fluctuations could lead to differences in the profitability of international contracts and orders. The majority of large international contracts are bid months in advance of when they are manufactured and shipped. These contracts are typically priced using United States dollars at an estimated future foreign exchange rate. If awarded to PSP, the receivables will generally be insured or secured by a letter of credit to ensure payment. If deemed necessary, management will enter into a foreign exchange forward contract to lock in the foreign exchange rate over the period of performance of these contracts. In addition, PSP reviews its price lists on a regular basis to ensure that it diminishes its exposure to rate changes. PSP manages its ongoing foreign currency exchange exposure by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures. The nature of PSP's business allows the Company to naturally hedge future normal foreign currency payments with future normal foreign currency collections.

OUTLOOK

Based on the existing order backlog and the addition of APS Distributors Ltd., the Canadian operation is expected to increase sales by 75% over the first half of the year, with a corresponding improvement in gross margins.

The newly formed Defense Group is actively pursuing opportunities in the US. In response to the announced requirement by the United States Army for improved soldier protection, the Company is developing a unique offering that will provide significant improvement over existing field products. Early indications suggest an interest that could result in initial sales during the first half of FY2009.

MEASURES NOT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The following measure included in this report does not have a standardized meaning under Canadian generally accepted accounting principles and, therefore, is unlikely to be comparable to similar measures presented by other companies:

EBITDA (earnings before interest, income taxes, depreciation and amortization), while not a concept recognized by generally accepted accounting principles, is an indirect measure for operating cash flow, a significant indicator of the success of any business.

Forward Looking Statements: This document may contain forward looking statements based on management's expectations, estimates and projections. All statements that address expectations or projections about the future, including statements about the Company's strategy for growth, product development, market position, expected expenditures and financial results are forward looking statements. Some of the forward looking statements may be identified by words like "expects," "anticipates," "plans," "intends," "projects," "indicates," and similar expressions. These statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions. Many factors, including those discussed more fully elsewhere in this release and in documents which may be filed with the British Columbia Securities Commission, the Alberta Securities Commission, the Ontario Securities Commission, the TSX Venture Exchange, as well as others, could cause results to differ materially from those stated. These factors include, but are not limited to changes in the laws, regulations, policies and economic conditions, including inflation, interest and foreign currency exchange rates, of countries in which the Company does business; competitive pressures; successful integration of structural changes, including restructuring plans, acquisitions, divestitures and alliances; cost of raw material, research and development of new products, including regulatory approval and market acceptance; and seasonality of sales in some products.

PACIFIC SAFETY PRODUCTS INC.
CONSOLIDATED BALANCE SHEETS

AS AT	***DECEMBER 31, 2007 (UNAUDITED)***	*JUNE 30, 2007 (AUDITED)*
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ -**	$ 888,144
Accounts receivable (note 18)	**6,646,182**	7,256,871
Inventory (note 5)	**6,235,617**	4,032,053
Prepaid expenses and deposits	**405,187**	466,183
Investment tax credits receivable	**4,912**	57,861
Future income taxes recoverable (note 6)	**630,642**	-
Total Current Assets	**13,922,540**	12,701,112
PROPERTY, PLANT AND EQUIPMENT (note 7)	**1,832,895**	3,253,980
OTHER ASSETS (note 8)	**690,061**	503,832
INTANGIBLE ASSETS (note 9)	**3,671,802**	2,221,403
GOODWILL (note 9)	**8,437,724**	5,742,037
TOTAL ASSETS	**$ 28,555,022**	$ 24,422,364
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (note 10)	**$ 3,042,635**	$ -
Accounts payable and accrued liabilities	**6,029,895**	5,054,704
Corporation taxes payable	**76,611**	60,000
Deferred revenue	**1,353,671**	1,132,360
Deferred gain (note 11)	**957,485**	-
Current portion of long-term debt (note 12)	**417,620**	640,000
Total Current Liabilities	**11,877,917**	6,887,064
LONG-TERM DEBT (note 12)	**982,380**	1,892,000
FUTURE INCOME TAXES PAYABLE (note 6)	**77,971**	13,196
TOTAL LIABILITIES	**12,938,268**	8,792,260
SHAREHOLDERS' EQUITY		
EQUITY INSTRUMENTS (note 13)	**17,498,525**	16,356,195
CONTRIBUTED SURPLUS (note 14)	**1,057,387**	967,540
DEFICIT	**(2,939,158)**	(1,693,631)
TOTAL SHAREHOLDERS' EQUITY	**15,616,754**	15,630,104
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 28,555,022**	$ 24,422,364

ON BEHALF OF THE BOARD OF DIRECTORS:

John Brodie, Director   David Scott, Director

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

PACIFIC SAFETY PRODUCTS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31, 2007	*THREE MONTHS ENDED DECEMBER 31, 2006*	***SIX MONTHS ENDED DECEMBER 31, 2007***	*SIX MONTHS ENDED DECEMBER 31, 2006*
SALES (note 15)	**$ 7,282,922**	$ 8,512,038	**$ 13,948,082**	$ 17,430,984
COST OF SALES	**5,954,997**	6,398,288	**11,113,827**	13,180,789
GROSS MARGIN	**1,327,925**	2,113,750	**2,834,255**	4,250,195
EXPENSES				
Sales and marketing	**694,400**	506,945	**1,130,636**	972,624
Research and development	**17,684**	51,332	**129,365**	135,268
General and administration	**1,411,426**	851,644	**2,362,976**	1,666,299
Interest on operating line	**35,010**	-	**35,010**	-
Interest on long-term debt	**18,148**	72,230	**43,312**	149,166
Foreign exchange (gains) losses	**16,739**	23,581	**31,450**	34,434
Amortization of property, plant and equipment	**51,492**	64,003	**95,551**	129,239
Amortization of intangible and other assets	**221,665**	68,791	**361,550**	134,936
Total Expenses	**2,466,564**	1,638,526	**4,189,850**	3,221,966
INCOME (LOSS) BEFORE OTHER ITEMS	**(1,138,639)**	475,224	**(1,355,595)**	1,028,229
OTHER ITEMS				
Relocation expense (note 16)	**980,000**	-	**980,000**	-
Gain on sale of building	**(235,327)**	-	**(474,698)**	-
TOTAL OTHER ITEMS	**744,673**	-	**505,302**	-
NET INCOME (LOSS) BEFORE INCOME TAXES	**(1,883,312)**	475,224	**(1,860,897)**	1,028,229
INCOME TAXES				
Current	**105,219**	-	**218,662**	-
Future (note 6)	**(624,048)**	297,306	**(834,032)**	607,814
Total Income Taxes Recoverable	**(518,829)**	297,306	**(615,370)**	607,814
NET INCOME (LOSS)	**(1,364,483)**	177,918	**(1,245,527)**	420,415
DEFICIT, BEGINNING	**(1,574,675)**	(2,509,909)	**(1,693,631)**	(2,752,406)
DEFICIT, ENDING	**$ (2,939,158)**	$ (2,331,991)	**$ (2,939,158)**	$ (2,331,991)
EARNINGS PER SHARE BASIC AND FULLY DILUTED (note 13)	**$ (0.054)**	$ 0.009	**$ (0.050)**	$ 0.022
WEIGHTED AVERAGE COMMON SHARES ISSUED AND OUTSTANDING BASIC AND FULLY DILUTED	25,091,728	*19,180,397*	24,677,351	*19,174,420*

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

PACIFIC SAFETY PRODUCTS INC.
CONSOLIDATED STATEMENTS OF CASH FLOW
(UNAUDITED)

	THREE MONTHS ENDED DECEMBER 31, 2007	*THREE MONTHS ENDED DECEMBER 31, 2006*	***SIX MONTHS ENDED DECEMBER 31, 2007***	*SIX MONTHS ENDED DECEMBER 31, 2006*
OPERATING ACTIVITIES				
Cash receipts from customers	**$ 6,441,529**	$ 7,294,133	**$ 15,789,233**	$ 16,183,820
Cash paid to suppliers and employees	**(9,084,886)**	(7,231,398)	**(16,876,184)**	(15,748,304)
Interest paid	**(53,158)**	(72,230)	**(78,322)**	(149,166)
Income taxes recovered	**(213,103)**	-	**(213,103)**	-
CASH FLOW FROM OPERATING ACTIVITIES	**(2,909,618)**	(9,495)	**(1,378,376)**	286,350
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	**(113,010)**	(73,151)	**(221,970)**	(168,028)
Disposal of assets	**-**		**2,941,943**	-
Investment in new product development	**(26,608)**	(63,118)	**(230,681)**	(106,216)
Investment in intangible assets	**(6,552)**	(8,302)	**(94,082)**	(49,109)
Acquisition of APS Distributors Ltd., net of cash	**(3,944,123)**	-	**(3,944,123)**	-
CASH FLOW USED BY INVESTING ACTIVITIES	**(4,090,293)**	(144,571)	**(1,548,913)**	(323,353)
FINANCING ACTIVITIES				
Proceeds from the issue of long-term debt	**1,000,000**	-	**1,000,000**	-
Repayment of long-term debt	**-**	(68,499)	**(2,132,000)**	(536,506)
Proceeds from the issue of equity instruments	**38,140**	23,301	**128,510**	30,016
CASH FLOW PROVIDED (USED) BY FINANCING ACTIVITIES	**1,038,140**	**(45,198)**	**(1,003,490)**	**(506,490)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(5,961,771)**	(199,264)	**(3,930,779)**	(543,493)
CASH AND CASH EQUIVALENTS, BEGINNING	**2,919,136**	1,788,657	**888,144**	2,132,886
CASH AND CASH EQUIVALENTS, ENDING	**$ (3,042,635)**	$ 1,589,393	**$ (3,042,635)**	$ 1,589,393

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

1. NATURE OF ACTIVITIES

Pacific Safety Products Inc.(PSP), incorporated under the Business Corporations Act, manufactures, distributes and sells a complete line of protective products and accessories for the defence and security market. Nexus Armour Inc. is a wholly owned subsidiary of PSP and is the parent company of Sentry Armor Systems Inc. (Sentry). Sentry was incorporated under the State of Delaware, USA and commenced operations in Dover, Tennessee on July 5, 2006. APS Distributors Ltd. is a wholly owned subsidiary of PSP located in Halifax, Nova Scotia.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and includes the accounts of Pacific Safety Products Inc. and its wholly owned companies, Nexus Armour Inc., Sentry Armor Systems Inc. and APS Distributors Ltd. All intercompany transactions and balances are eliminated on consolidation.

These interim unaudited consolidated financial statements follow the same accounting policies and methods of application as the most recent audited consolidated financial statements dated June 30, 2007. The disclosures provided herein are incremental to those included in the audited annual consolidated financial statements. These interim unaudited consolidated financial statements should be read in conjunction with the Company's June 30, 2007 audited annual consolidated financial statements.

Use of Estimates
The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make assumptions and estimates that affect the reported amounts and other disclosures in these consolidated financial statements. Actual results may differ from those estimates.

Goodwill and Intangible Assets
Goodwill is reviewed by management annually or more frequently if an event or circumstances indicate that the asset might be impaired. When the carrying amount of a reporting unit exceeds its fair value, an impairment is recognized in operations. Impairment is measured as the shortfall of the reporting unit's projected cashflows, after allocation to specific assets and liabilities, compared with the carrying amount of goodwill.

Deferred organization costs, patents, trademarks and deferred financing costs are recorded at out of pocket cost. Customer relationships, tradenames and non-compete agreements are recorded at cost which, for business acquisitions, represents the fair market value at the date of the acquisition. Management assesses intangible assets to ensure costs are recoverable through future sales. Any amount deemed to be unrecoverable is recognized in the current period. Amortization of intangibles are calculated using the following methods and annual rates:

Deferred organization costs, patents and trademarks	straight-line over five years
Deferred financing costs	over term of related loans
Customer relationships	straight-line over 10 to 15 years
Tradenames	straight-line over 15 years
Non-compete agreements	straight-line over 3 years

Measurement Uncertainty
The amounts accrued to recognize investment tax credits and future income tax assets relating to unclaimed loss carry-forwards for income tax purposes are based on the Company's estimate that it will have sufficient future taxable income to utilize these losses. By their nature, these estimates are subject to measurement uncertainty and the effects of changes in estimates of judgments will be recorded in the period such changes are made.

Goodwill is reviewed by management annually or more frequently if an event or circumstance indicates that the asset might be impaired. When the carrying amount of a reporting unit exceeds its fair value an impairment is recognized in operations. Impairment is measured as the shortfall of the reporting unit's projected cashflows, after allocation to specific assets and liabilities, compared with the carrying amount of goodwill.

Management assesses intangible and other assets to ensure costs are recoverable through future sales. Any amount deemed to be unrecoverable is recognized in the current period. By their nature, these estimates are subject to measurement uncertainty and the effects of changes in estimates of judgments will be recorded in the period such changes are made.

The Company has provided for certain warranty costs arising from the purchase of the net assets of Gator Hawk Armor Inc. The provision is based on an estimate of outstanding vouchers for replacement vests. This estimate is subject to measurement uncertainty and the effects of changes in estimates of judgments will be recorded in the period such changes are made.

Comparative Figures
Certain of the prior year's figures have been reclassified to conform to the current year's presentation.

3. *CHANGE IN ACCOUNTING POLICY*

Effective July 1, 2007, the Company adopted the new provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 Comprehensive Income, Section 3855 Financial Instruments - Recognition and Measurement and Section 3861 Financial Instruments - Disclosure and Presentation. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available for sale assets and liabilities or other financial liabilities. All financial instruments are measured in the balance sheet at fair value. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets and liabilities are measured at fair value and changes in fair value are recognized into net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income.

As a result of the adoption of these new standards, the Company has classified cash and cash equivalents as held-for-trading, trade accounts receivable as loans and receivables and all financial liabilities as other financial liabilities. The adoption of the new standard has no impact on the financial statements.

4. *BUSINESS COMBINATION*

On October 31, 2007 the Company acquired 100% of the outstanding shares of APS Distributors Ltd. (APS) for cash consideration of $4 million and common shares of the Company valued at $1 million. The transaction was funded by working capital and an increase in the existing operating line of credit. APS is an established distributor of police supplies and accessories and is based out of Bedford, Nova Scotia.

The acquisition has been accounted for using the purchase method whereby the purchase consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The preliminary allocation of the purchase price includes estimated costs related to the acquisition. Actual amounts incurred may differ from this estimate and any such difference will be factored into the final allocation. The excess of the purchase price over the estimated fair values of the assets acquired and liabilities assumed amounted to $2,608,523 which was allocated to Goodwill. The Company issued 1,000,000 common shares as part of the purchase consideration. The shares were valued at $1.00 per common share which was the average share price at the time the announcement to purchase APS was disclosed.

Net assets acquired at fair value:	
Working capital	$1,090,065
Property, plant and equipment	60,560
Customer relationships	1,644,146
Backlog	131,324
Future Income taxes payable	(297,757)
Goodwill	2,608,523
	$5,236,861

Cash consideration	$4,000,000
Common shares issued	1,000,000
Closing costs, estimate	236,861
	$5,236,861

5. INVENTORY	***DECEMBER 31, 2007***	*JUNE 30, 2007*
Raw materials	**$ 5,157,884**	$ 3,826,694
Work in process	**291,690**	73,960
Finished goods and samples	**786,043**	131,399
	$ 6,235,617	$ 4,032,053

6. FUTURE TAX ASSETS	***DECEMBER 31, 2007***	*JUNE 30, 2007*
Future Income Taxes Recoverable (Payable)		
The major components of future income taxes recoverable (payable) are:		
Tax losses available to reduce future income taxes payable	**$ 1,055,022**	$ 683,217
Investment tax credits available to reduce future income taxes payable	**-**	136,324
Allowance for tax losses available to reduce future income taxes payable	**(721,500)**	(683,217)
Taxes payable generated upon recognition of investment tax credits	**-**	(136,324)
Temporary difference relating to deferred gain on sale of building	**296,820**	-
Current future income taxes recoverable	**630,342**	-
Temporary difference relating to deductible financing costs	**186,878**	223,338
Temporary differences relating to property, plant and equipment	**(142,996)**	(103,832)
Temporary differences relating to goodwill, intangibles and other assets	**(484,701)**	(150,074)
Deductible SR&ED expenditures available for future years	**362,848**	17,372
Non current future income taxes	**$ (77,971)**	$ (13,196)

The effective rate of income tax varies from the statutory rate as follows:

For the six months ended December 31,	**2007**	2006
Combined tax rates	**34%**	34%
Income tax at the applicable tax rate	**$ (623,400)**	$ 350,831
Effect of tax rate difference between Canada and US on US operations	**13,698**	125,964
Valuation allowance for tax losses available to reduce future income taxes payable	**65,560**	130,857
Income tax effect of items not deductible for tax purposes	**32,752**	38,124
Income tax effect of share issue expenses	**-**	(37,962)
Income tax effect of items not taxable for tax purposes	**(103,980)**	-
Actual income tax expense	**$ (615,370)**	$ 607,814

At December 31, 2007, the Company had approximately $715,322 in Canadian non-capital tax loss carry forwards available. The Company has U.S. tax loss carry forwards of approximately $1,781,500 USD which have not been recognized (June 30, 2007 - Canadian non-capital tax loss carry forwards were nil, U.S. tax loss carry forwards were $1.6 million USD).

7. PROPERTY, PLANT AND EQUIPMENT

	DECEMBER 31, 2007			JUNE 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Building and parking lot	$ -	$ -	$ -	$ 1,805,712	$ 828,934	$ 976,778
Office equipment	315,154	149,394	165,760	171,594	105,526	66,068
Manufacturing equipment	2,261,788	1,256,816	1,004,972	2,214,264	1,158,798	1,055,466
Computer equipment (a)	1,380,367	911,398	468,969	1,239,276	765,342	473,934
Test and design equipment	124,221	111,270	12,951	124,221	108,967	15,254
Leasehold improvements	207,200	26,957	180,243	143,498	10,001	133,497
Subtotal	4,288,730	2,455,835	1,832,895	5,698,565	2,977,568	2,720,997
Land	-	-	-	532,983	-	532,983
	$ 4,288,730	$ 2,455,835	$ 1,832,895	$ 6,231,548	$ 2,977,568	$ 3,253,980

(a) Included in computer equipment in the previous year were assets under capital leases with a cost of $243,331 with a net book value of $149,347. Lease obligations were fully paid in fiscal 2007 and are disclosed in note 12.

8. OTHER ASSETS

	DECEMBER 31, 2007			JUNE 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Product development costs	$ 840,348	$ 150,287	$ 690,061	$ 609,720	$ 105,888	$ 503,832

9. GOODWILL AND INTANGIBLE ASSETS

	DECEMBER 31, 2007			JUNE 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Deferred organization costs	$ 196,494	$ 134,299	$ 62,195	$ 196,494	$ 114,493	$ 82,001
Patents	53,302	28,245	25,057	46,583	24,016	22,567
Trademarks	36,135	26,192	9,943	36,135	23,292	12,843
Deferred financing costs	111,879	100,638	11,241	170,259	112,773	57,486
Customer relationships	3,179,129	264,500	2,914,629	1,403,658	52,783	1,350,875
Non-compete agreements	171,273	48,776	122,497	171,273	20,230	151,043
Tradenames	550,431	24,191	526,240	550,431	5,843	544,588
	4,607,731	935,929	3,671,802	2,883,921	662,518	2,221,403
Goodwill	8,879,333	441,609	8,437,724	6,183,646	441,609	5,742,037
	$ 13,487,064	$ 1,377,538	$ 12,109,526	$ 9,067,567	$ 1,104,127	$ 7,963,440

10. BANK INDEBTEDNESS

The Company has an agreement with its bank to provide advances repayable on demand with interest payable monthly calculated at the bank prime lending plus 0.75% per annum. The loan is secured by a first priority general security agreement over accounts receivable, inventory and an assignment of insurance and is subject to a priority agreement between the Company and another financial institution. The maximum operating line is $5 million and is subject to margin requirements and covenants set by the lenders. At December 31, 2007 the amount drawn on the line of credit was $3,383,183 (June 30, 2007 - nil).

11. DEFERRED GAIN

During the first quarter of fiscal 2008, the Company sold its manufacturing facility in Kelowna, BC for $3 million. The Company has leased back the entire facility for 18 months. The related assets have been removed and the secured debt of $1,732,000 has been settled. The gain on the sale of the building will be amortized over the life of the lease.

12. LONG-TERM DEBT

Secured debenture with interest payable monthly calculated at the lender's floating base of 4.876% at June 30, 2007 plus 2.75% per annum. The principal was paid in full during the first quarter of fiscal 2008 from proceeds on the sale of the underlying asset.	**$ -**	$ 1,840,000
Subordinated debenture with interest payable monthly calculated at 14% per annum. There is also a deferred interest component calculated at 4% per annum, due annually, with an option to defer the payment to the maturity of the loan. The balance of the loan is due in July 2008 and is subject to annual principal repayments, based on a calculation of free cash flow, due 120 days after the year end. During a previous fiscal year, the Company made a catch up payment of $475,000 which is equal to the maximum cash sweep payments that could have been made in previous years. As part of the agreement the Company was required to make the maximum payment of $400,000 in fiscal 2007. Management has paid the maximum payment of $400,000 in fiscal 2008, therefore the balance of the debenture due in fiscal 2009 is $400,000.	**400,000**	1,200,000
This loan is secured by a first charge on fixed assets including land, building, equipment, vehicles and inventories of replacement parts, and a first floating charge on all other assets permitting an assignment of accounts receivable and inventory.		
Secured loan with interest payable monthly calculated at the lender's floating base rate of 8% at December 31, 2007 plus a variance of 2.3% per annum on the principal outstanding. The principal is repayable by one installment of $17,620 on December 23, 2008, 83 consecutive monthly payments of $17,860 commencing January 23, 2009 with the final payment on November 23, 2015. As of December 31, 2007, the Company has drawn down $1 million of the total $1.5 million available to be advanced.	**1,000,000**	-
This loan is secured by a first security interest in all present and after-acquired personal property, subject only to a prior charge with respect to receivables and inventory in favour of the lender providing the line of credit and a prior charge limited to $400,000 in favour of the lender providing the subordinated debenture with respect to all personal property.		
	1,400,000	3,040,000
Less current portion	**(417,620)**	(650,923)
	$ 982,380	$ 2,389,077

The estimated principal installments required to be paid over the five years are as follows:

2009	$ 417,260
2010	214,320
2011	214,320
2012	214,320
2013	214,320
Subsequent	125,460
	$ 1,400,000

13. EQUITY INSTRUMENTS

Authorized
The authorized share capital of the Company consists of unlimited voting common shares without par value.

As at	***DECEMBER 31, 2007***		*JUNE 30, 2007*	
	Number of Shares	***Amount***	***Number of Shares***	***Amount***
Beginning balance	**24,197,964**	**$ 16,356,195**	19,155,491	$ 11,860,828
Employee Ownership Plan (a)	**-**	**-**	47,762	20,705
Exercise of options (b)	**-**	**-**	39,000	21,027
Employee Ownership Plan (c)	**20,995**	**18,513**	26,090	23,278
Private placement (d)	**-**	**-**	4,500,000	4,500,000
Escrow shares (e)	**-**	**-**	429,621	429,621
Exercise of options (f)	**238,500**	**123,817**	-	-
Share issued on purchase of APS (g)	**1,000,000**	**1,000,000**	-	-
Less: stock issue costs, net of tax effect	**-**	**-**	-	(499,264)
Balance, DECEMBER 31, 2007	**25,457,459**	**17,498,525**	24,197,964	$ 16,356,195

(a) In January 2006, the Company offered its sixth employee share ownership plan. Under the plan, employees were entitled to purchase up to 300,000 common shares at $0.43 per share, which was the trading price at the time of offering. 41,504 shares were issued in January 2006 and 47,762 were issued in December 2006.
(b) In fiscal 2007, the Company issued 39,000 common shares through the exercise of employee stock options for proceeds of $21,027.
(c) In January 2007, the Company offered its seventh employee share ownership plan. Under the plan, employees were entitled to purchase up to 300,000 common shares at $0.90 per share, which was the trading price at the time of offering. As at June 30, 2007, 26,090 shares have been issued and 20,995 were issued during the period ending December 2007.
(d) During fiscal 2007, the Company completed a private placement for 4.5 million common shares valued at $1.00 per common share
(e) During fiscal 2007, the Company issued 429,621common shares to be held in escrow until April 30, 2008 in accordance with a condition of purchase of the net assets of Gator Hawk Armor Inc.
(f) During the first half of the current year, the Company issued 238,500 common shares through the exercise of employee stock options for proceeds of $123,817.
(g) During the second quarter of fiscal 2008 the Company issued 1,000,000 common shares valued at $1 as part of the purchase consideration for the purchase of APS Distributors Ltd. (note 4)

Stock Options
The Company has a stock option plan that provides options to purchase common shares of the Company for its management, executive officers and members of the Board of Directors. These options expire five years after the issue date or, in the event the employee's service ceases, at a date determined by the Board of Directors. Board members' options expire 90 days after termination or resignation. The exercise price for these stock options is set at the average closing price over the previous 20 day trading period. Vesting periods are determined by the Board of Directors upon issuance. At December 31, 2007, the Company had 1,129,930 stock options outstanding with exercise prices ranging from $0.27 to $1.95. Of the options outstanding at December 31, 2007, 75,000 do not fully vest until one year after the grant date and/or specific conditions have been satisfied.

	Senior Management	***Executive Officers***	***Board of Directors***	***Total***	***Weighted Average Exercise Price***
Balance, June 30, 2007	109,100	586,830	477,500	1,173,430	$ 0.72
Issued	**-**	**75,000**	**200,000**	**275,000**	**$ 0.94**
Expired	**-**	**(30,000)**	**(50,000)**	**(80,000)**	**$ 1.08**
Exercised	**(15,000)**	**(202,500)**	**(21,000)**	**(238,500)**	**$ 0.42**
BALANCE, DECEMBER 31, 2007	**94,100**	**429,330**	**606,500**	**1,129,930**	**$ 0.81**

13. EQUITY INSTRUMENTS (continued)

Weighted Average Exercise Price	**$ 0.73**	**$ 0.71**	**$ 0.89**	**$ 0.81**	
Weighted Average Remaining Contractual Life (years)	**3.24**	**2.99**	**3.26**	**3.16**	
Total Stock Option Pool Authorized					**2,500,000**
Total Stock Option Pool Remaining					**542,070**

The fair value of stock options issued in previous years was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield (nil), expected volatility ranged from (0.71 to 0.74), risk-free interest rate ranged from (2.3% to 3.85%), and weighted average life of five years. The fair value of stock options issued during the current year was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield (nil), expected volatility ranging from (0.63 to 0.76), risk-free interest rate (4%), weighted average life of five years with a fair value ranging from ($0.49 to $0.64).

The following table summarizes information regarding the Company's outstanding stock options at December 31, 2007:

Options Outstanding				*Options Exercisable*	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.27 to $0.39	184,000	1.16	$ 0.28	184,000	$ 0.28
$0.46 to $0.68	315,930	3.10	$ 0.62	315,930	$ 0.62
$0.71 to $1.06	540,000	4.27	$ 0.93	465,000	$ 1.03
$1.43 to $1.95	90,000	2.08	$ 1.80	90,000	$ 1.80
	1,129,930		$ 0.81	1,054,930	$ 0.84

14. CONTRIBUTED SURPLUS

Balance, June 30, 2007	$ 967,540
Stock option compensation expense (a)	141,305
Stock option compensation expense recovered	(28,323)
Release to share capital on exercise of stock options	(23,135)
BALANCE, DECEMBER 31, 2007	**$ 1,057,387**

(a) The fair value of stock options was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield (nil), expected volatility (0.74), risk-free rate (4.0%) and weighted average life of five years with a weighted average fair value of $0.63 per stock option.

15. SEGMENTED INFORMATION	***APS Distributors Ltd.***	***Pacific Safety Products Inc.***	***Sentry Armor Systems Inc.***	***Consolidated Total***
For the Six Months Ended December 31, 2007				
Revenue	**$ 2,013,707**	**$ 9,223,853**	**$ 2,992,925**	**$ 14,230,485**
Elimination of inter-segment revenue	**-**	**(149,826)**	**(132,577)**	**(282,403)**
Total revenue	**2,013,707**	**9,074,027**	**2,860,348**	**13,948,082**
Gross margin	**499,770**	**1,844,145**	**490,340**	**2,834,255**
Expenses	**269,314**	**2,930,621**	**489,502**	**3,689,437**
Amortization	**2,422**	**313,163**	**141,516**	**457,101**
Other Items	**-**	**548,614**	**-**	**548,614**
Income taxes	**76,611**	**(691,981)**	**-**	**(615,370)**
Net income (loss) after taxes	**$ 151,423**	**$ (1,256,272)**	**$ (140,678)**	**$ (1,245,527)**

	APS Distributors Ltd.	***Pacific Safety Products Inc.***	***Sentry Armor Systems Inc.***	***Total***
AS AT DECEMBER 31, 2007				
Assets				
Current assets	**$ 2,602,071**	**$ 9,406,027**	**$ 2,254,989**	**$ 14,263,087**
Property, plant and equipment	**58,137**	**1,341,241**	**433,517**	**1,832,895**
Intangible, Other assets, Future Income Tax	-	**2,579,542**	**1,979,983**	**4,559,525**
Goodwill	-	**5,442,510**	**2,995,215**	**8,437,725**
	$ 2,660,208	**$ 18,769,320**	**$ 7,663,704**	**$ 29,093,232**
AS AT JUNE 30, 2007				
Assets				
Current assets		$ 10,705,501	$ 456,884	$ 12,701,112
Property, plant and equipment		2,801,518	452,462	3,253,980
Intangible, Other assets, Future Income Tax		596,728	2,128,507	2,725,235
Goodwill		2,834,353	2,907,684	5,742,037
		$ 16,938,100	$ 7,484,264	$ 24,422,364

For the six months ended December 31,	***2007***	***2006***
Domestic	**$ 11,136,224**	**$ 8,175,996**
United States	**2,324,410**	**275,674**
International	**487,448**	**60,368**
	$ 13,948,082	**$ 8,512,038**

The Company operates primarily in the protective products and accessories manufacturing and distribution industry. Its current operations are based in Ontario, British Columbia and Nova Scotia, Canada and in Tennessee, USA. Included in Q2 revenue were sales of $1.45 million to the Canadian Federal Government (Q2 2007 - $6.29 million) which represents 20.0% (Q2 2007 - 73.9%) of total sales. Other than the Canadian Federal Government, the Company had no other significant sales (over 10% of revenue) to any one customer.

The Company experiences sales cycles that can be dependent on the award of contracts by major police agencies and federal government departments. These cycles are, at times, unpredictable and may cause variations in revenue and profitability from quarter to quarter.

16. *RELOCATION EXPENSES*

During the quarter, the Company announced it was moving its Corporate Head Office from Kelowna BC to the Ottawa, Ontario region. Subsequent to this announcement, the Company decided to close the remaining manufacturing facilities in Kelowna, BC.

These costs are specifically associated with the relocation activities of the Company and consist of:

Severance and retention costs	$ 865,000
Estimated relocation costs	115,000
Balance, December 31, 2007	$ 980,000

17. RELATED PARTY TRANSACTIONS

During the quarter the Company paid $58,944 (Q2 fiscal 2007 - $42,668) in consulting and professional fees to a member of the Board of Directors. These fees were charged to general administration expense. These transactions were all in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value.

18. FINANCIAL INSTRUMENTS

As disclosed in note 2, the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate, credit and foreign currency risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) At December 31, 2007, the Company had $982,380 (June 30, 2007 - $1,732,000) of long-term floating rate debt.

(b) At December 31, 2007 the Company had $3,127,376 (June 30, 2007 - $5,027,086) in accounts receivable due from the Canadian Federal government.

(c) At December 31, 2007 the Company had $165,695 (June 30, 2007 - $784,019) cash on deposit with a Canadian Chartered Bank and $78,235 cash on deposit with a U.S. Bank (June 30, 2007 - $91,493).

(d) Foreign currency exchange rate risk management - a portion of the Company's sales are denominated in foreign currencies and, accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures. The effect of a 1% change in foreign currency exchange rates would have a nominal effect on the financial results of the Company.

19. SUBSEQUENT EVENTS

In October 2007 the Company announced it was moving its Corporate Head Office from Kelowna, BC to the Ottawa, ON region over the next nine months. Subsequent to this announcement the Company also decided to shut down the remaining manufacturing operations in Kelowna, BC and relocate the ballistic range to the Arnprior, ON location in the next fiscal year.

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