Pacific Safety Products Inc.
PSP: TSX Venture Exchange
www.pacsafety.com

Investor Report
Fiscal 2008, Quarter One

Interim Results forthe quarter ended September 30, 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 year ended September 30, 2007. It is recommended the information provided be read in conjunction with PSP's consolidated financial statements and notes for the quarter ended September 30, 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 November 28, 2007, 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, 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 is experiencing 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. During the 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

For the quarter ending September 30, 2007, the Company reported net income after tax $0.1 million on revenue of $6.7 million, or $0.005 per share. This compares to net income of $0.2 million on revenue of $8.9 million, or $0.013 per share in the comparable quarter last year. The Company reported net income after tax of its Canadian operation of $0.3 million. This was partially offset by a net loss of its U.S. operation, of $0.2 million. EBITDA for the quarter ended September 30, 2007 was $0.3 million compared to $0.8 million in the comparable quarter last year.

During the quarter the Company sold its Kelowna facility and retired the long term secured debt of $1.73 million associated with the building. Subsequent to quarter end, PSP successfully completed the purchase of APS Distributors Inc., a customer focused distributor of police supplies. The Company also announced they would transition their head office from Kelowna to the Ontario region to position themselves closer to customers, suppliers and their subsidiaries in Dover, Tennessee and Halifax, Nova Scotia.

The Company's net sales for the first quarter of fiscal 2008 were $6.7 million compared to $8.9 million in Q1 fiscal 2007. This represents a decrease of $2.2 or 24.7%. Net income for Q1 was $0.1 million or $0.005 per share compared to $0.2 million or $0.013 per share.

CONSOLIDATED RESULTS OF OPERATIONS

SUMMARY OF OPERATIONS	***THREE MONTHS ENDED SEPTEMBER 30, 2007***	*THREE MONTHS ENDED SEPTEMBER 30, 2006*
SALES	**$ 6,665,160**	$ 8,918,945
COST OF SALES	**5,158,830**	6,782,501
GROSS MARGIN	**1,506,330**	2,136,444
EXPENSES	**1,723,286**	1,583,439
OTHER ITEMS	**(239,371)**	-
TOTAL EXPENSES AND OTHER ITEMS	**1,483,915**	1,583,439
INCOME BEFORE INCOME TAXES	**22,415**	553,005
INCOME TAX EXPENSE (RECOVERY)	**(96,541)**	310,508
INCOME	**$ 118,956**	$ 242,497
BASIC AND FULLY DILUTED INCOME PER SHARE	**$ 0.005**	$ 0.013
WEIGHTED AVERAGE BASIC COMMON SHARES ISSUED AND OUTSTANDING	**24,262,970**	19,168,444

Sales and Profitability

PSP's sales for the first quarter were $6.7 million, down from $8.9 million last year, a decrease of 25%. Of the total quarterly sales, $3.0 million or 45% relate to the two major Federal government contracts compared to $6.96 million or 78% in Q1 of fiscal 2007. This decrease in revenue on the government contracts is in line with management's expectations as the Company successfully completed the first phase of the Horizon One Chemical/Biological coverall contract at the end of fiscal 2007. The Department of National Defence (DND) has exercised further options on this contract. The Company expects to be begin production of these options in Q2 fiscal 2008.

The Company reported net income after taxes for the quarter ended September 30, 2007 of $0.4 million or $0.015 per share compared to $0.2 or $0.013 per share in Q1 of fiscal 2007. The decrease in earnings for the quarter is a result of weak core sales volume and continued delays of contract awards.

Cost of Sales and Gross Margin

PSP's consolidated gross margin for the quarter decreased to 22.60% of revenue as compared to 23.95% in the same quarter last year. Gross margin for the Canadian operations was 25.5% on revenue of $5.34 million and 10.82% (revenue of $1.32 million) for the U.S. operations. In the comparative quarter last year, gross margin on the Canadian operations was 25.6% on revenue of $8.8 million. There was minimal revenue from the US operations in Q1 2007 as they continued to set up operations. During the current quarter, the Company continued to transition the Gator Hawk product line to its Dover, TN facility. Overall labour efficiencies continue to improve and management expects to see improved gross margins from the US operations in the upcoming quarters.

Selling, Research and General Administration Expenses (SG&A)

The total of these expenses for the first quarter was $1.7 million compared to $1.6 million in the same quarter last year, an increase of $0.1 million. As a percentage of revenue, these expenses increased to 25.86% compared to 17.75%. 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 $0.1 million compared to $0.1 million in quarter one 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 $0.2 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 decreased to $0.04 million in quarter one compared to $0.07 million in the same quarter last year. Amortization of other assets increased $0.14 million compared to $0.07 million in quarter one, 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. during fiscal 2007.

There was no interest incurred on the operating line for the three months ended September 30, 2007 and September 30, 2006.

Interest on long-term debt decreased$0.03 million compared to $0.08 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 $1.73 million associated with the property. The balance of the subordinated debenture at September 30, 2007 is $0.4 million compared to $0.8 million at June 30, 2007 and has been reclassified as current debt.

Income Taxes

Income taxes were calculated at an effective rate of 34.12% for Canadian operations and 40.5% for U.S. operations for the quarter ended September 30, 2007. Income tax expense on Canadian earnings 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 income after taxes of $0.1 million for the first quarter (2007 Q1 - $0.2 million) which resulted in basic and diluted earnings per share of $0.005 (2007 Q1 - $0.013). The difference in net income from this year's Q1 to last year's Q1 is predominantly due to lower sales volume as a result of delays in contract awards.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

EBITDA for the quarter ended September 30, 2007 was $0.3 million compared to $0.8 million for the quarter ended September 30, 2006. The calculation of EBITDA for the first quarter includes the gain on sale of building of $0.2 million. The reason for the significant decrease in EBITDA this quarter over Q1 2007 is due to lower sales volume and an increase in sales and general administrative expenses.

CONSOLIDATED QUARTERLY RESULTS

	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006
Sales	**$6,665,160**	$11,547,177	$10,585,366	$8,512,038	$8,918,945	$9,369,317	$9,195,213	$7,204,500
Net income	**$358,327**	$283,037	$355,325	$177,918	$242,497	$741,766	$742,182	$520,055
Basic and fully diluted earnings per share	**$0.015**	$0.012	$0.018	$0.009	$0.013	$0.038	$0.039	$0.027

During fiscal 2006 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 generated by operating activities was $1.5 million compared to $0.3 million of cash generated in the same quarter last year. During the quarter the Company collected over $3.67 million on accounts receivable which explains the significant increase in cash generated from operations over the comparative quarter last year. The Company also generated $2.5 million from investing activities compared to $0.2 million used in the same quarter last year. The sale of the Kelowna facility resulted in proceeds of $2.9 million which was offset by an investment of $0.4 million in new product development, intangible assets and property, plant and equipment. Financing activities decreased cash by $2.0 million as a result of the repayment of the long term debt associated with the Kelowna building. This compares to $0.5 million used by financing activities in the same quarter last year. Financing activities in the previous comparable quarter included normal principal repayments on the secured loan offset by proceeds received from the issuance of shares from the exercise of employee stock options.

CASH FLOW	***THREE MONTHS ENDED SEPTEMBER 30, 2007***	*THREE MONTHS ENDED SEPTEMBER 30, 2006*
Cash flow from (used for) continuing operations	**$ 1,531,242**	$ 295,845
Investing activities and capital expenditures	**$ 2,541,380**	$ (178,782)
Financing activities	**$ (2,041,630)**	$ (461,292)
	$ 2,030,992	$ (344,229)

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL POSITION

AS AT	***SEPTEMBER 30, 2007***	*JUNE 30, 2007*
Cash and cash equivalents	**$ 2,919,136**	$ 888,144
Working capital	**$ 5,737,042**	$ 5,814,048
Long-term debt (long-term portion only)	**$ -**	$ 1,892,000
Shareholders' equity	**$ 15,817,344**	$ 15,630,104

WORKING CAPITAL

PSP's liquidity remains strong as the Company continues to generate significant cashflow from operations. At September 30, 2007, PSP's working capital was $5.7 million compared to $5.8 million at September 30, 2006. Subsequent to quarter end, the Company increases its operating line to $5 million to fund the acquisition of APS Distributors Ltd. The Company is currently reviewing longer term debt financing options to create more availability on the bank operating line.

Accounts Receivable

Accounts receivable at September 30, 2007 decreased $3.7 miliion to $3.6 million from $7.3 million at June 30, 2007. Of the $7.3 million balance at June 30, 2007, $5 million or 69% was related to receivables from the Federal Government and was subsequently received during Q1 fiscal 2008. Less than 4% of total receivables are over 60 days and management has not identified any bad debts.

Inventory

Inventory at September 30, 2007 decreased $0.3 million to $3.7 compared to $4.0 million at June 30, 2007. The decrease in inventory is due to the break in the large government contract cycles. 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 $2 million operating line of credit with a Canadian Chartered bank. At September 30, 2007 and June 30, 2007 no balances were outstanding on this line of credit. Subsequent to quarter end the Company negotiated with its lender an increase in this credit line to $5 million to facilitate the purchase of APS Distributors Ltd., a Canadian distribution company in October 2007.

Bank Covenants

At September 30, 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 September 30, 2007 the Company reported ITC's of $28,635 (June 30, 2007 - $57,861) which represents the net amount of ITC's receivable after offsetting the estimated taxes payable accrued to date.

Future Income Taxes

Loss carry forwards of approximately $1.73 million USD for the U.S. operation, Sentry Armor Systems Inc, have not been recorded in the year 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, $0.2 million in new product development costs and $0.1 million in intangible assets. Segmented information on these assets can be found in Note 13 of the September 30, 2007 financial statements.

LONG-TERM DEBT

During the quarter the Company repaid $1.732 million in secured debt from the proceeds of the sale of the Kelowna, BC manufacturing facility.

EQUITY INSTRUMENTS AND CONTRIBUTED SURPLUS

During the quarter, PSP issued 1,425 shares under its Employee Share Ownership Plan for net proceeds of $900 and 195,000 shares for net proceeds of $89,470 as a result of the exercise of employee stock options. At September 30, 2007, PSP's issued and outstanding shares totaled 24,394,389 compared to 24,197,964 at June 30, 2007.

Subsequent to quarter end the Company purchased the shares of APS Distributors Ltd. for $4 million in cash and $1 million PSP common shares valued at $1 per share.

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 $48,816 (Q1 fiscal 2007 - $48,816) 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 September 30, 2007, the Company had nil (June 30, 2007 - $1.73 million) of long-term floating rate debt.
(b) At September 30, 2007 the Company had $1.3 million (June 30, 2007 - $5.0 million) in accounts receivable due from the Canadian Federal government.
(c) At September 30, 2007 the Company had $2.7 million (June 30, 2007 - $0.8 million) cash on deposit with a Canadian Chartered Bank and $0.2 million cash on deposit with a U.S. Bank (June 30, 2007 - $0.9 million).
(d) At September 30, 2007 the Company held a secured letter of credit with its financial institution in the amount of US
(e) $0.4 million.
(f) 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.

SUBSEQUENT EVENTS
Subsequent to quarter end the Company successfully completed the purchase of APS Distributors Ltd. on October 31, 2007 for cash consideration of $4 million and $1 million common shares valued at $1.00 per share.

In October 2007 the Company announced it was moving its Corporate Head Office from Kelowna, BC to Ottawa, ON region over the next nine months. The cost of the transition is estimated to be approximately $0.75 million and is anticipated to be reported in the current fiscal year.

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 nil at September 30, 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.

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	***SEPTEMBER 30, 2007 (UNAUDITED)***	*JUNE 30, 2007 (AUDITED)*
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 2,919,136**	$ 888,144
Accounts receivable (note 16)	**3,581,728**	7,256,871
Inventory (note 4)	**3,678,323**	4,032,053
Prepaid expenses and deposits	**375,539**	466,183
Investment tax credits receivable	**28,635**	57,861
Future income taxes recoverable (note 5)	**296,820**	-
Total Current Assets	**10,880,181**	12,701,112
PROPERTY, PLANT AND EQUIPMENT (note 6)	**1,767,445**	3,253,980
OTHER ASSETS (note 7)	**688,804**	503,832
INTANGIBLE ASSETS (note 8)	**2,100,619**	2,221,403
GOODWILL (note 8)	**5,829,567**	5,742,037
TOTAL ASSETS	**$ 21,266,616**	$ 24,422,364
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 3,472,450**	$ 5,054,704
Corporation taxes payable	**173,443**	60,000
Deferred revenue	**139,761**	1,132,360
Deferred gain - current portion (Note 10)	**957,485**	-
Current portion of long-term debt (Note 9)	**400,000**	640,000
Total Current Liabilities	**5,143,139**	6,887,064
LONG-TERM DEBT (Note 9)	**-**	1,892,000
DEFERRED GAIN (Note 10)	**235,327**	**-**
FUTURE INCOME TAXES PAYABLE (note 5)	**70,806**	13,196
TOTAL LIABILITIES	**5,449,272**	8,792,260
SHAREHOLDERS' EQUITY		
EQUITY INSTRUMENTS (note 11)	**16,446,565**	16,356,195
CONTRIBUTED SURPLUS (note 12)	**945,454**	967,540
DEFICIT	**(1,574,675)**	(1,693,631)
TOTAL SHAREHOLDERS' EQUITY	**15,817,344**	15,630,104
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 21,266,616**	$ 24,422,364

Contingencies and commitments (Note 14)
Subsequent events (Note 17)

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)

FOR THE THREE MONTHS ENDED SEPTEMBER 30	***2007***	*2006*
SALES (note 13)	**$ 6,665,160**	$ 8,918,945
COST OF SALES	**5,158,830**	6,782,501
GROSS MARGIN	**1,506,330**	2,136,444
EXPENSES		
Sales and marketing	**436,236**	465,678
Research and development	**111,681**	83,936
General and administration	**951,550**	814,655
Interest on long-term debt	**25,164**	76,936
Foreign exchange losses	**14,711**	10,853
Amortization of property, plant and equipment	**44,059**	65,236
Amortization of intangible and other assets	**139,885**	66,145
Total Expenses	**1,723,286**	1,583,439
INCOME (LOSS) BEFORE OTHER ITEMS	**(216,956)**	553,005
OTHER ITEMS		
Gain on sale of building (Note 10)	**(239,371)**	-
NET INCOME BEFORE INCOME TAXES	**22,415**	553,005
INCOME TAXES		
Current	**113,443**	-
Future	**(209,984)**	310,508
Total Income Taxes Payable (Recoverable) (Note 5)	**(96,541)**	310,508
NET INCOME	**118,956**	242,497
DEFICIT, BEGINNING	**(1,693,631)**	(2,752,406)
DEFICIT, ENDING	**$ (1,574,675)**	$ (2,509,909)
BASIC AND FULLY DILUTED EARNINGS PER SHARE (note 11)	**$ 0.005**	$ 0.013
WEIGHTED AVERAGE BASIC COMMON SHARES ISSUED AND OUTSTANDING	**24,262,970**	19,168,444
WEIGHTED AVERAGE FULLY DILUTED COMMON SHARES ISSUED AND OUTSTANDING	**24,563,214**	19,334,876

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

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

FOR THE THREE MONTHS ENDED SEPTEMBER 30	***2007***	*2006*
OPERATING ACTIVITIES		
Cash receipts from customers	**$ 9,347,704**	$ 8,889,687
Cash paid to suppliers and employees	**(7,791,298)**	(8,516,906)
Interest paid	**(25,164)**	(76,936)
CASH FLOW FROM OPERATING ACTIVITIES	**1,531,242**	295,845
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(108,960)**	(94,877)
Disposal of property, plant and equipment (Note 10)	**2,941,943**	-
Investment in new product development	**(204,073)**	(43,098)
Investment in intangible assets	**(87,530)**	(40,807)
CASH FLOW FROM (USED) BY INVESTING ACTIVITIES	**2,541,380**	(178,782)
FINANCING ACTIVITIES		
Repayment of long-term debt	**(2,132,000)**	(468,007)
Proceeds from the issue of equity instruments	**90,370**	6,715
CASH FLOW USED BY FINANCING ACTIVITIES	**(2,041,630)**	(461,292)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,030,992**	(344,229)
CASH AND CASH EQUIVALENTS, BEGINNING	**888,144**	2,132,886
CASH AND CASH EQUIVALENTS, ENDING	**$ 2,919,136**	$ 1,788,657

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.

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. and Sentry Armor Systems Inc. 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, except as described in Note 3, Change in Accounting Policy. 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 consolidated 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.

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.

4. INVENTORY

	September 30, 2007	*June 30, 2007*
Raw materials	**$ 3,253,958**	$ 3,826,694
Work in process	**117,229**	73,960
Finished goods and samples	**307,136**	131,399
	$ 3,678,323	$ 4,032,053

5. FUTURE TAX ASSETS

Future Income Taxes Recoverable (Payable)

The major components of future income taxes recoverable (payable) are:	***September 30, 2007***	*June 30, 2007*
Tax losses available to reduce future income taxes payable	**$ 700,650**	$ 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	**(700,650)**	(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	**296,820**	-
Temporary difference relating to deductible financing costs	**211,755**	223,338
Temporary differences relating to property, plant and equipment	**(147,379)**	(103,832)
Temporary differences relating to goodwill, intangibles and other assets	**(208,134)**	(150,074)
Deductible SR&ED expenditures available for future years	**-**	17,372
Temporary difference relating to deferred gain on sale of building	**72,952**	-
Non current future income taxes recoverable (payable)	**$ (70,806)**	$ (13,196)

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

Combined tax rates	**34%**	34%
Income tax at the applicable tax rate	**$ 7,129**	$ 188,686
Valuation allowance for tax losses available to reduce future income taxes payable	**48,941**	68,131
Income tax effect of items not deductible for tax purposes	**8,327**	17,395
Income tax effect of items not taxable for tax purposes	**(171,165)**	(35,400)
Change in expense related to tax differential	**10,227**	71,696
Actual income tax expense	**$ (96,541)**	$ 310,508

At September 30, 2007, the Company had no Canadian non-capital tax loss carry forwards available. The Company has U.S. tax loss carry forwards of approximately $1.73 million 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 $1.58 million.

6. PROPERTY, PLANT AND EQUIPMENT

	September 30, 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	194,203	109,256	84,947	171,594	105,526	66,068
Manufacturing equipment	2,095,776	1,058,843	1,036,933	2,214,264	1,158,798	1,055,466
Computer equipment (a)	1,282,668	801,029	481,639	1,239,276	765,342	473,934
Test and design equipment	124,221	110,127	14,094	124,221	108,967	15,254
Leasehold improvements	163,667	13,835	149,832	143,498	10,001	133,497
Subtotal	3,860,535	2,093,090	1,767,445	5,698,565	2,977,568	2,720,997
Land	-	-	-	532,983	-	532,983
	$ 3,860,535	$ 2,093,090	$ 1,767,445	$ 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.

7. OTHER ASSETS

	September 30, 2007			June 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Product development costs	$ 816,042	$ 127,238	$ 688,804	$ 609,720	$ 105,888	$ 503,832

8. GOODWILL AND INTANGIBLE ASSETS

	September 30, 2007			June 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Deferred organization costs	$ 196,494	$ 124,476	$ 72,018	$ 196,494	$ 114,493	$ 82,001
Patents	51,117	26,091	25,026	46,583	24,016	22,567
Trademarks	36,135	24,792	11,343	36,135	23,292	12,843
Deferred financing costs	111,879	95,044	16,835	170,259	112,773	57,486
Customer relationships	1,403,659	100,446	1,303,213	1,403,658	52,783	1,350,875
Non-compete agreements	171,273	34,503	136,770	171,273	20,230	151,043
Tradenames	550,431	15,017	535,414	550,431	5,843	544,588
Deferred contract costs	309,088	309,088	-	309,088	309,088	-
	2,830,076	729,457	2,100,619	2,883,921	662,518	2,221,403
Goodwill	6,271,176	441,609	5,829,567	6,183,646	441,609	5,742,037
	$ 9,101,252	$ 1,171,066	$ 7,930,186	$ 9,067,567	$ 1,104,127	$ 7,963,440

9. LONG-TERM DEBT	***September 30, 2007***	*June 30, 2007*
Secured Debenture Secured debenture with interest payable monthly calculated at the lender's floating base rate of 4.934% at September 30, 2007 (4.934% at June 30, 2007) plus 2.75% per annum. The principal was paid in full during the current quarter from proceeds on the sale of the underlying asset.	**$ -**	$ 1,732,000
Subordinated Debenture 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 the 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 fiscal 2009 is $400,000.	**400,000**	800,000
	400,000	2,532,000
Less current portion	**(400,000)**	(640,000)
	$ -	$ 1,892,000

10. DEFERRED GAIN

During the quarter, 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.

11. EQUITY INSTRUMENTS

Authorized

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

As at	***September 30, 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)	**1,425**	**900**	26,090	23,278
Private placement (d)	**-**	**-**	4,500,000	4,500,000
Escrow shares (e)	**-**	**-**	429,621	429,621
Exercise of options (f)	**195,000**	**89,470**	-	-
Less: stock issue costs, net of tax effect	**-**	**-**	-	(499,264)
Balance, September 30, 2007	**24,394,389**	**$ 16,446,565**	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. At June 30, 2007, 26,090 shares were issued and at September 30, 2007, 1425 shares were issued at $0.90 per share.
(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 quarter, the Company issued 195,000 common shares through the exercise of employee stock options for proceeds of $89,470.

11. EQUITY INSTRUMENTS (continued)

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 September 30, 2007, the Company had 953,430 stock options outstanding with exercise prices ranging from $0.27 to $1.95. Of the options outstanding at September 30, 2007, 25,000 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	**-**	**25,000**	**-**	**25,000**	**$ 0.94**
Forfeited	**-**	**-**	**(50,000)**	**(50,000)**	**$ 0.87**
Exercised	**(15,000)**	**(180,000)**	**-**	**(195,000)**	**$ 0.40**
Balance, September 30, 2007	**94,100**	**431,830**	**427,500**	**953,430**	**$ 0.78**
Weighted Average Exercise Price	**$ 0.73**	**$ 0.73**	**$ 0.84**	**$ 0.78**	
Weighted Average Remaining Contractual Life (years) -	**3.49**	**2.71**	**2.99**	**2.92**	
Total Stock Option Pool Authorized					**2,500,000**
Total Stock Option Pool Remaining					**712,070**

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 (0.74), risk-free interest rate (4%), weighted average life of five years with a fair value of $0.63.

The following table summarizes information regarding the Company's outstanding stock options at September 30, 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	205,000	1.32	$ 0.29	205,000	$ 0.29
$0.46 to $0.68	338,430	3.36	$ 0.62	338,430	$ 0.62
$0.71 to $1.06	290,000	3.43	$ 0.93	265,000	$ 0.92
$1.43 to $1.95	120,000	2.38	$ 1.71	120,000	$ 1.71
	953,430		$ 0.78	928,430	$ 0.77

12. CONTRIBUTED SURPLUS

Balance, June 30, 2007	$ 967,540
Stock option compensation expense (a)	17,507
Stock option compensation expense recovered	(28,323)
Release to share capital on exercise of stock options	(11,270)
Balance, September 30, 2007	**$ 945,454**

(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.

13. SEGMENTED INFORMATION

	Pacific Safety Products Inc. (Canada)	*Sentry Armor Systems Inc.*	*Consolidated Total*
For the Three Months Ended September 30, 2007			
Revenue	**$ 5,399,742**	**$ 1,361,970**	**$ 6,761,712**
Elimination of inter-segment revenue	**(59,156)**	**(37,396)**	**(96,552)**
Total revenue	**5,340,586**	**1,324,574**	**6,665,160**
Gross margin	**1,363,074**	**143,256**	**1,506,330**
Expenses	**1,291,533**	**247,809**	**1,539,342**
Amortization	**105,925**	**78,019**	**183,944**
Other items	**(239,371)**	**-**	**(239,371)**
Income taxes	**(96,541)**	-	**(96,541)**
Net income (loss)	**$ 301,528**	**$ (182,572)**	**$ 118,956**

	Pacific Safety Products Inc. (Canada)	*Sentry Armor Systems Inc.*	*Total*
As at September 30, 2007			
Assets			
Current assets	**$ 8,339,727**	**$ 2,540,454**	**$ 10,880,181**
Property, plant and equipment	**1,329,839**	**437,606**	**1,767,445**
Intangibles and Other assets	**742,008**	**2,047,415**	**2,789,423**
Goodwill	**2,834,353**	**2,995,214**	**5,829,567**
	$ 13,245,927	**$ 8,020,689**	**$ 21,266,616**
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	2,251,054	2,847,782
Goodwill	2,834,353	2,785,137	5,619,490
	$ 16,938,100	$ 7,484,264	$ 24,422,364

13. SEGMENTED INFORMATION (continued)

For the three months ended	*September 30, 2007*	*September 30, 2006*
Domestic	**$ 5,094,319**	**$ 1,615,254**
United States	**1,168,354**	**6,964,150**
International	**402,487**	**339,541**
	$ 6,665,160	**$ 8,918,945**

The Company operates primarily in the protective products and accessories manufacturing and distribution industry. Its current operations are based in British Columbia and Ontario, Canada and in Tennessee, USA. Included in revenue were sales of $3.42 million to the Canadian Federal Government (Q1 2007 - $6.96 million) which represents 51.4% (Q1 2007 - 78%) of total sales. Other than the Canadian Federal Government, the Company had no other significant sales (over 10% of revenue) to any one customer.

14. CONTINGENCIES AND COMMITMENTS

The Company entered into an agreement with its bank to secure an irrevocable Standby Letter of Credit (LOC) in the amount of $440,000 USD ($443,582 CAD) at September 30, 2007. The LOC is secured by the Company's operating line. This LOC is issued in connection with the Horizon 1 protective coverall contract as a security for payment to a certain supplier of raw materials.

15. RELATED PARTY TRANSACTIONS

During the quarter the Company paid $48,816 (Q1 fiscal 2007 - $48,816) 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.

16. 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 September 30, 2007, the Company had nil (June 30, 2007 - $1,732,000) of long-term floating rate debt.

(b) At September 30, 2007 the Company had $1.3 (June 30, 2007 - $5,027,086) in accounts receivable due from the Canadian Federal government.

(c) At September 30, 2007 the Company had $2.7 (June 30, 2007 - $784,019) cash on deposit with a Canadian Chartered Bank and $0.2 cash on deposit with a U.S. Bank (June 30, 2007 - $91,493).

(d) At September 30, 2007 the Company held a secured letter of credit with its financial institution in the amount of US$440,000.

(e) 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.

17. SUBSEQUENT EVENTS

Subsequent to quarter end the Company successfully completed the purchase of APS Distributors Ltd. on October 31, 2007 for cash consideration of $4 million and $1 million common shares valued at $1.00 per share.

In October 2007 the Company announced it was moving its Corporate Head Office from Kelowna, BC to Ottawa, ON region over the next nine months. The cost of the transition is estimated to be approximately $750,000 and is anticipated to be reported in the current fiscal year.

PSP™
Pacific Safety Products Inc.
Trading Symbol - PSP: TSX Venture Exchange
2821 Fenwick Road, Kelowna, British Columbia, Canada V1X 5E4
Web site www.pacsafety.com
Toll free phone 1.888.PSP.ARMR (1.888.777.2767)
Phone 250.491.0911
Fax 250.491.0930