Investor Report

Fiscal 2009, Quarter One

Interim Results for the quarter ended September 30, 2008 with Comparative Results for 2007

Pacific Safety Products Inc.

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 three month period ended September 30, 2008. It is recommended the information provided be read in conjunction with PSP's consolidated financial statements and notes for the twelve month period ended June 30, 2008, message to shareholders and other management discussions included in the Company's annual report. The information in this report includes information available to October 31, 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 body 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. ("APS"), a division of PSP that services law enforcement and public safety agencies across Canada. The Company, through its wholly owned subsidiary Sentry Armor Systems Inc. ("Sentry"), 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 its customers' needs. Founded in 1984, PSP has grown to include more than 285 employees at our Canadian and U.S. facilities.

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 and public safety sectors serviced by PSP continues to offer expansion opportunities 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 and Horizon 1 Chem / Bio Coveralls. 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. During fiscal year 2007 the Company purchased the net assets of Gator Hawk Armor Inc. ("Gator Hawk"), an established California based body armour manufacturer. With this purchase the Company acquired a recognized product line and a significant distributor list.

The current economic downturn has not had a significant impact on the company's operations to date. Management believes that the company is in a good position to weather the markets current economic challenges with products that are essential to our customers operations in the defence and public safety sectors. Management will continue to monitor and assess its liquidity and credit position in light of the current economic environment.

Given current industry and market conditions, demand for products serving the defence and public safety sectors 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

- The Company announced $10 million in new contract awards and expects to deliver approximately $7 million against these new contracts in the current fiscal year.
- Gross margin improved by almost 2 percentage points to 24% as compared to the same period of the prior year.
- The US body armour business generated over $2 million of sales during the quarter, an increase of over 60% compared to the same period of the prior year.
- The Company's next generation helmet liner was submitted for test and evaluation by the U.S. Army and also the National Tactical Officers Association, a US based organization that provides a comprehensive product review data base to US law enforcement.

CONSOLIDATED RESULTS OF OPERATIONS

SUMMARY OF OPERATIONS	*THREE MONTHS ENDED SEPTEMBER 30, 2008*	*THREE MONTHS ENDED SEPTEMBER 30, 2007*
SALES	$ 7,706,366	$ 6,665,160
COST OF SALES	5,833,344	5,158,830
GROSS MARGIN	1,873,022	1,506,330
EXPENSES	2,058,836	1,723,286
LOSS BEFORE OTHER ITEMS AND TAXES	(185,814)	(216,956)
OTHER ITEMS	-	(239,371)
INCOME (LOSS) BEFORE INCOME TAXES	(185,814)	22,415
INCOME TAX RECOVERY	(193,571)	(96,541)
NET INCOME	$ 7,757	$ 118,956
BASIC AND FULLY DILUTED INCOME PER SHARE	$ -	$ 0.005
WEIGHTED AVERAGE BASIC COMMON SHARES ISSUED AND OUTSTANDING	25,467,694	24,262,970

RESULTS OF OPERATIONS

Sales

Sales for the three month period ending September 30, 2008 were $7.7 million, an increase of $1.0 million or 15% as compared to the same period of the prior year. The increase is primarily attributed to increased sales related to the acquisition of APS in the second quarter of the prior year and increased sales from US operations. These amounts were partially offset by reduced sales from Canadian government contracts. Sales generated from Canadian operations were $5.6 million, an increase of $0.3 million or 6% over the same period of the prior year. This increase is attributed to the Company's strategic investments in the Canadian market, including the acquisition of APS in order to mitigate the volatility associated with government procurement cycles and its effect on sales. Sales generated from US operations were $2.1 million, an increase of $0.8 million or 62% as compared to the same period of the prior year. This increase is attributed to the Company's strategic investments in the US market including the launch of the GH brand of protective products for the US Law Enforcement market and investments in sales and marketing channels.

Gross Margin

For the three month period ending September 30, 2008, gross margin as a percentage of sales increased by 1.7 percentage points to 24.3% as compared to 22.6% in the same quarter of the prior year. The increase is attributed to improved gross margins from US operations due to improved manufacturing efficiency and better overhead absorption related to increased manufacturing volume. Gross margin from Canadian operations was consistent with the same quarter of the prior year.

Expenses

For the three month period ending September 30, 2008, expenses were $2.1 million, an increase of $0.3 million or 19% as compared to the same period of the prior year. The increase in expenses is primarily attributed to the Company's acquisition of APS during the second quarter of the prior year and the Company's investments in infrastructure to support its growth strategy including investments in US sales and marketing channels and the formation of the defence business unit in order to compete and win large scale military contracts internationally.

Research and development (R&D) expenditures for the three month period ending September 30, 2008 were $0.1 million compared to $0.1 million during the same period of the prior year. Expenses included in this category include the costs related to ballistic research materials, testing, product designs, patterns, labour and overhead. The increase in these expenses is in line with management's expectations as the Company continues to invest in new geographies and product lines. During the quarter, management deferred $0.1 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 was $0.04 million for the three month period ending September 30, 2008 compared to $0.04 million in the same period of the prior year. Amortization of Other assets was $0.1 million compared to $0.1 million in the same period of the prior year.

Interest on the operating line for the three month period ending September 30, 2008 was $0.03 million compared to nil in the same period of the prior year. The increase in interest expense is due to increased bank indebtedness primarily related to the acquisitions of APS and Gator Hawk Armor Inc. and infrastructure investments to facilitate the Company's growth strategy.

Interest on long term debt for the three month period ending September 30, 2008 was $0.04 million compared to $0.03 million in the same period of the year. The increase is primarily attributed to the Company drawing down the remaining $0.5 million of its secured loan and repaying the remaining $0.4 million on its subordinated debenture in July 2008.

Income Taxes

Income taxes were calculated at an effective rate of 33.5% for Canadian operations and 40.5% for U.S. operations for the three month period ending September 30, 2008. Income tax expense 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. In addition the company recovered approximately $126,000 of tax benefits related to the transfer of operations from Kelowna, British Columbia to the Ottawa area of Ontario.

Net Income

The Company a reported net income of $0.001 million for the three month period ending September 30, 2008 as compared to net income of $0.1 million in the same period of the prior year. Basic and diluted net income per share were nil for the quarter compared to $0.005 of basic and diluted net income in the same period of the prior year. The decrease in net income is primarily due to the recognition of a onetime pre-tax gain of $0.2 million related to the disposition of the Kelowna, British Columbia facility in the prior year.

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

EBITDA for the three month period ended September 30, 2008 was $0.4 million compared to $0.5 million in the same period of the prior year. The calculation of EBITDA includes the gain on the disposition of the Kelowna, British Columbia facility in the prior year. The decrease in EBITDA in the current quarter as compared to the same period of the prior year is primarily due to the recognition of the $0.2 million gain of the disposition of the Kelowna facility, partially offset by increased sales and gross margins in the current year.

The following is a reconciliation of net income to EBITDA:

For the three Months Ended	**September 30, 2008**	September 30, 2007
Net Income	**7,757**	118,956
Interest expense	**70,060**	25,164
Current income taxes	**(21,219)**	113,443
Stock Compensation	**91,664**	17,507
Amortization	**230,783**	233,488
EBITDA	**379,045**	508,558

CONSOLIDATED QUARTERLY RESULTS

	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Sales	**$7,706,366**	$10,210,482	$10,639,392	$7,282,922	$6,665,160	$11,547,177	$10,585,366	$8,512,038
Net income (loss)	**$7,757**	$724,690	$299,946	($1,364,483)	$118,956	$283,037	$355,325	$177,918
Basic and fully diluted earnings per share	**$-**	$0.02	$0.01	($0.05)	$0.01	$0.01	$0.02	$0.01

The Company recorded a one-time provision of approximately $1.0 million in Q2 of fiscal 2008 related to the relocation of the Company from Kelowna, British Columbia to the Ottawa area of Ontario.

Cash Flow

Cash flow used in operating activities for the three month period ended September 30, 2008 was $0.6 million compared to $1.5 million of cash generated in the same period of the prior year. The decrease in cash flow from operating activities was primarily attributed to increased working capital requirements related to increased sales. The Company used $0.2 million for investing activities for the three month period ending September 30, 2008, primarily related to new product development and investments in property plant and equipment, compared to $2.5 million of cash generated from investing activities in the same period of the prior year. The $2.5 million of cash generated from financing activities in the prior year was primarily related to the disposition of the Kelowna, British Columbia facility. For the three month period ending September 30, 2008, financing activities generated a net $0.1 million as a result of proceeds drawn from the Company's secured loan facility to repay the Company's subordinated debenture facility. The Company used $2.0 million of cash in financing activities in the prior year primarily as a result of the repayment of long-term debt.

CASH FLOW	***THREE MONTHS ENDED SEPTEMBER 30, 2008***	*THREE MONTHS ENDED SEPTEMBER 30, 2007*
Cash flow from (used for) continuing operations	**$ (566,713)**	$1,531,242
Investing activities and capital expenditures	**$ (216,843)**	$2,541,380
Financing activities	**$ 100,000**	$2,041,630)
	$ (683,556)	$2,030,992

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL POSITION

AS AT	***SEPTEMBER 30, 2008***	*JUNE 30, 2008*
Cash and cash equivalents (bank indebtedness)	**$(2,294,802)**	$(1,611,246)
Working capital	**$3,089,036**	$2,855,092
Long-term debt (long-term portion only)	**$1,322,000**	$875,580
Shareholders' equity	**$16,794,615**	$16,716,344

WORKING CAPITAL

At September 30, 2008, PSP's working capital was $3.1 million compared to $2.9 million at June 30, 2008. The increase in working capital is primarily due to the repayment of the Company's subordinated debenture facility in July, 2008.

Accounts Receivable

Accounts receivable at September 30, 2008 decreased $0.8 million to $5.0 million from $5.8 million at June 30, 2008. The decrease is primarily related to a reduction in sales during the current quarter as compared to the fourth quarter of last year. Sales during the first quarter of the fiscal year has traditionally been lower than the other quarters of the year, primarily due to the slower summer months and the shutdown of the Company's manufacturing facilities for annual maintenance.

Inventory

Inventory at September 30, 2008 increased $0.7 million to $5.6 million compared to $4.9 million at June 30, 2008. The increase in inventory is primarily due to a significant increase in the Company's order intake during the quarter.

Bank Indebtedness

The Company has in place a $5.0 million operating line of credit with a Canadian Chartered bank. At September 30, 2008 the Company had a balance of $2.7 outstanding on this line of credit.

Bank Covenants

At September 30, 2008 and June 30, 2008 , 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, 2008 the Company reported ITC's of $0.5 million (June 30, 2008 - $0.1 million).

Future Income Taxes

Loss carry forwards of approximately $0.6 million for the Canadian operations and approximately $0.1 million USD for US operations have been recognized in the current quarter. 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, $0.1 million in new product development costs and intangible assets.

LONG-TERM DEBT
The Company has a $1.5 million secured term loan with the Business Development Bank of Canada. At September 30, 2008 the Company had drawn down $1.5 million on this facility.

EQUITY INSTRUMENTS AND CONTRIBUTED SURPLUS
At September 30, 2008, PSP's weighted average issued and outstanding shares totaled 25,467,694 compared to 25,068,470 at June 30, 2008.

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, 2008.

RELATED PARTY TRANSACTIONS
During the quarter the Company paid nil (Q1 fiscal 2008 - $0.04 million) in consulting and professional fees to a company controlled by a member of the Board of Directors. These fees were charged to general and 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 14 of the financial statements, 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, 2008, the Company had $2.7 million (June 30, 2008 - $2.3 million) outstanding on its operating line of credit with a Canadian Chartered Bank.
(b) At September 30, 2008 the Company had $2.5 million (June 30, 2008 - $2.3 million) in accounts receivable due from the Canadian Federal government.
(c) At September 30, 2008 the Company had $0.4 million (June 30, 2008 - $0.2 million) cash on deposit with a Canadian Chartered Bank and $0.2 million cash on deposit with a U.S. Bank (June 30, 2008 - $0.1 million).
(d) At September 30, 2008 the Company had $1.5 million (June 30, 2008 - $1.0 million) outstanding on its variable rate secured term loan facility with the Business Development bank of Canada.
(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.

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 $2.7 million and the Company's secured loan facility with a balance of $1.5 million at September 30, 2008, are variable rate loans. The effect of a 1% change in interest rates would have a nominal effect on the financial results of the company.

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 foreign exchange 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.

Consolidated financial statements of

PACIFIC SAFETY PRODUCTS INC.

For the three month period ended September 30, 2008

(Unaudited)

PACIFIC SAFETY PRODUCTS INC.
Consolidated Financial Statements
For The Three Month Period Ended September 30, 2008 (unaudited)

PACIFIC SAFETY PRODUCTS INC.
CONSOLIDATED BALANCE SHEETS

AS AT	**SEPTEMBER 30, 2008 *(UNAUDITED)***	*JUNE 30, 2008 (AUDITED)*
ASSETS		
CURRENT ASSETS		
Accounts receivable (note 14)	**$ 5,031,140**	$ 5,816,983
Corporation taxes recoverable	**35,762**	31,512
Inventory (note 5)	**5,554,414**	4,880,894
Prepaid expenses and deposits	**312,350**	196,389
Investment tax credits receivable	**-**	85,365
Future income taxes recoverable (note 6)	**224,500**	224,500
Total Current Assets	**11,158,166**	11,235,643
INVESTMENT TAX CREDIT RECEIVABLE	**452,871**	-
LONG TERM TAXES RECEIVABLE	**16,999**	-
FUTURE INCOME TAXES RECOVERABLE (note 6)	**75,989**	241,173
PROPERTY, PLANT AND EQUIPMENT (note 7)	**1,703,295**	1,682,758
PRODUCT DEVELOPMENT COSTS (note 8)	**954,353**	896,612
INTANGIBLE ASSETS (note 9)	**3,369,851**	3,462,068
GOODWILL (note 9)	**8,454,221**	8,454,221
TOTAL ASSETS	**$ 26,185,745**	$ 25,972,475
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (note 10)	**$ 2,294,802**	$ 1,611,246
Accounts payable and accrued liabilities	**4,273,876**	4,877,396
Deferred revenue	**1,322,452**	1,367,489
Current portion of long-term debt (note 11)	**178,000**	524,420
Total Current Liabilities	**8,069,130**	8,380,551
LONG-TERM DEBT (note 11)	**1,322,000**	875,580
TOTAL LIABILITIES	**9,391,130**	9,256,131
SHAREHOLDERS' EQUITY		
EQUITY INSTRUMENTS (note 12)	**17,504,223**	17,504,223
CONTRIBUTED SURPLUS (note 15)	**1,197,157**	1,126,643
DEFICIT	**(1,906,765)**	(1,914,522)
TOTAL SHAREHOLDERS' EQUITY	**16,794,615**	16,716,344
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 26,185,745**	$ 25,972,475

ON BEHALF OF THE BOARD OF DIRECTORS:

John R. Brodie, Director   Martin Carsky, 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 SEPTEMBER 30, 2008	THREE MONTHS ENDED SEPTEMBER 30, 2007
SALES	**$ 7,706,366**	$ 6,665,160
COST OF SALES	**5,833,344**	5,158,830
GROSS MARGIN	**1,873,022**	1,506,330
EXPENSES		
Sales and marketing	**893,058**	436,236
Research and development	**75,649**	111,681
General and administration	**822,548**	951,550
Interest on operating line	**33,993**	-
Interest on long-term debt	**36,067**	25,164
Foreign exchange losses	**15,560**	14,711
Amortization of property, plant and equipment	**43,732**	44,059
Amortization of intangible and other assets	**138,229**	139,885
Total Expenses	**2,058,836**	1,723,286
LOSS BEFORE OTHER ITEMS	**(185,814)**	(216,956)
OTHER ITEMS		
Gain on sale of building (note 7)	**-**	(239,371)
TOTAL OTHER ITEMS	**-**	(239,371)
NET INCOME (LOSS) BEFORE INCOME TAXES	**(185,814)**	22,415
INCOME TAXES		
Current Recovery	**(21,219)**	113,443
Future Recovery	**(172,352)**	(209,984)
Total Income Taxes Recoverable (note 6)	**(193,571)**	(96,541)
NET INCOME	**7,757**	118,956
DEFICIT, BEGINNING	**(1,914,522)**	(1,693,631)
DEFICIT, ENDING	**$ (1,906,765)**	$ (1,574,675)
EARNINGS PER SHARE BASIC AND FULLY DILUTED	**$ -**	$ 0.005
WEIGHTED AVERAGE COMMON SHARES ISSUED AND OUTSTANDING BASIC AND FULLY DILUTED	***25,467,694***	***24,262,970***

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

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

	THREE MONTHS ENDED SEPTEMBER 30, 2008	THREE MONTHS ENDED SEPTEMBER 30, 2007
OPERATING ACTIVITIES		
Cash receipts from customers	**$ 8,447,172**	$ 9,347,704
Cash paid to suppliers and employees	**(8,913,825)**	(7,791,298)
Interest paid	**(70,060)**	(25,164)
Income taxes recovered	**(30,000)**	-
CASH FLOW FROM (USED BY) OPERATING ACTIVITIES	**(566,713)**	1,531,242
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(113,090)**	(108,960)
Disposal of assets	**-**	2,941,943
Investment in new product development	**(96,678)**	(204,073)
Investment in intangible assets	**(7,075)**	(87,530)
CASH FLOW FROM (USED BY) INVESTING ACTIVITIES	**(216,843)**	2,541,380
FINANCING ACTIVITIES		
Proceeds from long-term debt facility	**100,000**	-
Repayment of long-term debt	**-**	(2,132,000)
Proceeds from the issue of equity instruments	**-**	90,370
CASH FLOW FROM (USED BY) FINANCING ACTIVITIES	**100,000**	(2,041,630)
(INCREASE) / DECREASE IN CASH / (BANK INDEBTEDNESS)	**(683,556)**	2,030,992
CASH / (BANK INDEBTEDNESS), BEGINNING	**(1,611,246)**	888,144
CASH / (BANK INDEBTEDNESS), ENDING	**$ (2,294,802)**	$ 2,919,136

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

1. NATURE OF ACTIVITIES

Pacific Safety Products Inc. ("PSP"), incorporated under the British Columbia 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 in the State of Delaware, USA and commenced operations in Dover, Tennessee on July 5, 2006. APS Distributors Ltd. ("APS") is a division of PSP located in Bedford, Nova Scotia and was acquired by PSP on October 31, 2007.

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 subsidiaries, Nexus Armour Inc. and Sentry Armor Systems Inc. All intercompany transactions and balances are eliminated on consolidation.

Except as disclosed herein, 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, 2008. 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, 2008 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. 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.

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 expensed. Amortization of intangibles are calculated using the following methods and annual rates:

Deferred organization costs	straight-line over 5 years
Patents and trademarks	straight-line over 5 years
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 less the costs to sell. 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.

2. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

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.

3. *CHANGE IN ACCOUNTING POLICY*

On July 1, 2008, the Company adopted the following Canadian Institute of Chartered Accountants ("CICA") Handbook Sections:

Section 3031, "Inventories"
The new standard replaces the previous inventories standard and requires inventories to be valued on a first-in, first-out or weighted average basis, which is consistent with the Company's accounting policies. The new standard requires the measurement of inventories at the lower of cost and net realizable value and provides guidance on the determination of cost, including any write-down to net realizable value. The adoption of this standard has had no material impact on the financial position or results of operations as reported in the Company's unaudited interim consolidated financial statements. The Company values inventory at the lower of cost and net realizable value. The cost of finished goods which primarily consists of goods held for resale by the APS division, includes direct costs and an allocation of overhead based on normal capacity. Cost is determined on a weighted average basis.

Section 3862, "Financial Instruments - Disclosures" and Section 3863, "Financial Instruments - Presentation"
These new disclosure standards increase the Company's disclosure regarding the nature and extent of the risks associated with financial instruments and how those risks are managed. This new accounting standard is disclosed in note 14. Section 3863 carries forward, unchanged, the presentation standards from Section 3861.

Section 1535, "Capital Disclosures"
This new standard requires the Company to disclose its objectives, policies and processes for managing its capital structure and is disclosed in note 15.

4. *RECENT ACCOUNTING PRONOUNCEMENTS*

As at January 1, 2009, the Company will be required to adopt the CICA Handbook Section 3064, "Goodwill and Intangible Assets", which will replace the existing Goodwill and Intangible Assets standard. The new standard revise the requirements for recognition, measurement, presentation and disclosure of intangible assets. The Company has evaluated the impact of this new standard and does not anticipate that the adoption of this new standard will have a material impact on the Company's financial position or results of operations.

In 2005, the Canadian Accounting Standards Board ("AcSB") announced that accounting standards in Canada are to converge with International Financial Reporting Standards ("IFRS"). On February 13, 2008, the AcSB had confirmed that the use of IFRS will be required by January 1, 2011, with appropriate comparative data from the prior year. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy that must be addressed. While the Company has begun assessing the adoption of IFRS for 2011, the financial impact of the transition to IFRS cannot be reasonably estimated at this time.

5. *INVENTORY*	*SEPTEMBER 30, 2008*	*JUNE 30, 2008*
Raw materials	**$ 4,126,269**	$ 3,714,900
Work in process	**205,228**	42,396
Finished goods	**1,222,917**	1,123,598
	$ 5,554,414	$ 4,880,894

5. *INVENTORY (continued)*

The following table sets forth details of Cost of Sales

For the three months ended September 30th	*2008*	*2007*
Raw materials and consumables used	**$ 3,000,820**	$ 3,909,256
Labour costs	**1,328,351**	1,134,969
Net change in inventories of finished goods and work in progress	**1,302,142**	-
Other costs	**202,031**	114,605
	$ 5,833,344	$ 5,158,830

6. *FUTURE TAX ASSETS*

	SEPTEMBER 30, 2008	*JUNE 30, 2008*
Future Income Taxes Recoverable (Payable)		
The major components of future income taxes recoverable (payable) are:		
Tax losses available to reduce future income taxes payable	**$ 295,000**	$ 295,000
Allowance for tax losses available to reduce future income taxes payable	**(70,500)**	(70,500)
Current future income taxes recoverable	**224,500**	224,500
Temporary difference relating to deductible financing costs	**133,273**	144,204
Temporary differences relating to property, plant and equipment	**(126,023)**	(128,429)
Temporary differences relating to goodwill, intangibles and other assets	**(535,467)**	(498,809)
Deductible SR&ED expenditures available for future years	**70,970**	174,411
Deductible loss carryforwards available for future years	**533,236**	549,796
Non current future income taxes	**$ 75,989**	$ 241,173

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

For the three months ended September 30	**2008**	2007
Combined tax rates	**34%**	34%
Income tax at the applicable tax rate	**$ (62,248)**	$ 7,129
Valuation allowance for tax losses available to reduce future income taxes payable	**(144,509)**	48,941
Income tax effect of items not deductible for tax purposes	**13,186**	8,327
Income tax effect of share issue expenses	-	(171,165)
Income tax effect of items not taxable for tax purposes	-	10,227
Actual income tax expense	**$ (193,571)**	$ (96,541)

At September 30, 2008, the Company had approximately $1.4 million in Canadian non-capital tax loss carry forwards available. The Company has U.S. tax loss carry forwards of approximately $1.3 million USD which have not been recognized (June 30, 2008 - Canadian non-capital tax loss carry forwards were $1.4 million, U.S. tax loss carry forwards were $1.4 million USD).

7. PROPERTY, PLANT AND EQUIPMENT

	SEPTEMBER 30, 2008			JUNE 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	$ 281,101	$ 126,107	$ 154,994	$ 273,535	$ 118,048	$ 155,487
Manufacturing equipment	2,082,386	1,187,090	895,296	2,030,072	1,141,401	888,671
Computer equipment	1,260,064	828,974	431,090	1,215,699	800,391	415,308
Test and design equipment	119,257	85,209	34,048	119,257	82,449	36,808
Leasehold improvements	232,002	44,135	187,867	224,258	37,774	186,484
	$ 3,974,810	$ 2,271,515	$ 1,703,295	$ 3,862,821	$ 2,180,063	$ 1,682,758

(a) Of the total amortization expense of $230,783 for the three month period ended September 30, 2008 (September 30, 2007 - $ 233,488) there is $48,822 (September 30, 2007 - $49,544) recorded in Cost of Sales.

(b) During the three month period ended September 30, 2007 the company recorded a gain of $239,371 related to the disposition of it's building, excess land and parking lot in Kelowna, British Columbia.

8. PRODUCT DEVELOPMENT COSTS

	SEPTEMBER 30, 2008			JUNE 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Product development costs	$ 1,214,599	$ 260,246	$ 954,353	$ 1,113,366	$ 216,754	$ 896,612

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9. GOODWILL AND INTANGIBLE ASSETS

	SEPTEMBER 30, 2008			JUNE 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Deferred organization costs	$ 196,494	$ 163,763	$ 32,731	$ 196,494	$ 153,942	$ 42,552
Patents	76,622	36,657	39,965	69,373	33,298	36,075
Trademarks	38,609	30,188	8,421	38,609	28,968	9,641
Deferred financing costs	111,879	111,879	-	111,879	111,826	53
Customer relationships	3,179,128	468,889	2,710,239	3,179,129	407,325	2,771,804
Non-compete agreements	171,273	91,593	79,680	171,273	77,321	93,952
Tradenames	550,531	51,716	498,815	550,531	42,540	507,991
	4,324,536	954,685	3,369,851	4,317,288	855,220	3,462,068
Goodwill	8,895,830	441,609	8,454,221	8,895,830	441,609	8,454,221
	$ 13,220,366	$ 1,396,294	$ 11,824,072	$ 13,213,118	$ 413,611	$ 11,916,289

10. BANK INDEBTEDNESS

The Company has an agreement with a Canadian chartered 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 $5.0 million and is subject to margin requirements and covenants set by the lenders. At September 30, 2008 the amount drawn on the line of credit was $2,745,399 (June 30, 2008 - $2,268,503).

11. LONG-TERM DEBT

	SEPTEMBER 30, 2008	*JUNE 30, 2008*
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. 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
Secured loan with interest payable monthly calculated at the lender's floating base rate of 8% at September 30, 2008 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 September 30, 2008, the Company has drawn down the total $1.5 million available to be advanced. 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.	**1,500,000**	1,000,000
	1,500,000	1,400,000
Less current portion	**(178,000)**	(524,420)
	$ 1,322,000	$ 875,580

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

2009	$ 178,000
2010	214,320
2011	214,320
2012	214,320
2013	214,320
Subsequent	464,720
	$ 1,500,000

12. EQUITY INSTRUMENTS

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

As at	**SEPTEMBER 30, 2008**		*JUNE 30, 2008*	
	Number of Shares	*Amount*	*Number of Shares*	*Amount*
Beginning balance	**25,467,694**	**$ 17,504,223**	24,197,964	$ 16,356,195
Employee Ownership Plan (a)	-	-	20,995	18,513
Exercise of options (b)	-	-	238,500	123,817
Shares issued on purchase of APS (c)	-	-	1,000,000	1,000,000
Employee Ownership Plan (d)	-	-	10,235	6,448
Less: stock issue costs, net of tax effect	-	-	-	(750)
Balance,	**25,467,694**	**$ 17,504,223**	25,467,694	$ 17,504,223

(a) 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.
(b) During the year, the Company issued 238,500 common shares through the exercise of employee stock options for proceeds of $123,817.
(c) 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.
(d) In January 2008, the Company offered its eighth employee share ownership plan. Under the plan, employees were entitled to purchase up to 300,000 common shares at $0.63 per share, which was the trading price at the time of offering. As at March 31, 2008, 10,235 shares have been issued.

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, 2008, the Company had 1,375,830 stock options outstanding with exercise prices ranging from $0.27 to $1.95. Of the options outstanding at September 30, 2008, 160,000 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, 2008	**50,000**	**504,330**	**561,500**	**1,115,830**	**$ 0.77**
Issued	**-**	**60,000**	**200,000**	**260,000**	**$ 0.43**
Balance, September 30, 2008	**50,000**	**564,330**	**761,500**	**1,375,830**	**$ 0.71**
Weighted Average Exercise Price	**$ 0.76**	**$ 0.64**	**$ 0.75**	**$ 0.71**	
Weighted Average Remaining Contractual Life (years)	**2.44**	**1.96**	**3.32**	**2.73**	
Total Stock Option Pool Authorized					**2,500,000**
Total Stock Option Pool Remaining					**240,170**

12. EQUITY INSTRUMENTS (continued)

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 4.0%), and weighted average life of five years. The fair value of stock options issued during the current period was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield (nil), expected volatility (0.71), risk-free interest rate (4%), weighted average life of five years with a fair value of ($0.28).

The following table summarizes information regarding the Company's outstanding stock options at September 30, 2008:

	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 $0.42	519,000	3.25	$ 0.38	459,000	$ 0.37
$0.46 to $0.68	261,830	1.51	$ 0.61	261,830	$ 0.61
$0.71 to $1.06	520,000	3.08	$ 0.93	520,000	$ 0.93
$1.43 to $1.95	75,000	0.92	$ 1.77	75,000	$ 1.77
	1,375,830		$ 0.71	1,315,830	$ 0.72

13. CONTRIBUTED SURPLUS

Balance, June 30, 2008	$ 1,126,643
Stock option compensation expense (a)	70,514
Balance, SEPTEMBER 30, 2008	**$ 1,197,157**

(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 (0.71), risk-free rate (4.0%) and weighted average life of five years with a weighted average fair value of $0.28 per stock option.

14. FINANCIAL INSTRUMENTS

In the normal course of business, the Company is exposed to a variety of financial risks related to credit, interest rate, currency fluctuations and liquidity.

Credit Risk
The Company sells its products to a variety of customers under various payment terms in the normal course of its operations and therefore is exposed to credit risk. The Company's exposure to credit risk is influenced by general economic conditions, the default risk of the industry and the relative concentration of business. A significant amount of the Company's trade receivables are derived from the Canadian federal government. At September 30, 2008, the Company had $2.5 million (June 30, 2008 - $2.3 million) in accounts receivable due from the Canadian Federal government.

In monitoring credit risk, the Company considers industry, volume and aging trends, maturity, and other relevant factors. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary. Purchase limits established for certain accounts represent the maximum open balance permitted without approval from the Chief Financial Officer. The Company maintains reserves for potential credit losses relating to specific exposures and any such losses to date have been within management's expectations.

The maximum exposure to credit risk at the reporting date is the carrying value of receivables.

14 FINANCIAL INSTRUMENTS (continued)

The movement in the allowance for doubtful accounts receivable in respect of trade receivable during the period was not significant. The following table sets forth details of accounts receivable:

As at	**SEPTEMBER 30, 2008**	*JUNE 30, 2008*
Not past due	**$ 3,412,315**	$ 3,813,714
Past due from more than one day but for no more than 30 days	**1,015,995**	1,513,255
Past due from more than 31 days but for no more than 60 days	**312,639**	261,429
Past due from more than 61 days	**327,007**	253,241
	$ 5,067,956	$ 5,841,639
Less: allowance for doubtful accounts	**(36,816)**	(24,656)
	$ 5,031,140	$ 5,816,983

Interest Rate Risk
The Company is exposed to interest rate risk with regard to a short-term variable rate operating line of credit and a long-term variable rate secured term loan. For the three month period ended September 30, 2008, if interest rates on the operating line and long-term debt were to have fluctuated by 1%, and all other variables were held constant, the impact on the Company's earnings before income taxes would be nominal.

Currency Fluctuations
The Company operates primarily in North America and as a result, fluctuations in the rate of exchange between the US and Canadian dollar have an effect on the Company's reported results.

A significant portion of the company's sales are denominated in Canadian dollars. Some of the companies raw material used in production and products purchased for resale are denominated in US dollars, and a significant portion of the Company's operational costs and expenses are incurred in Canadian dollars. Therefore, an increase in the value of the Canadian dollar relative to the US dollar reduces the revenue in Canadian dollar terms realized by the Company from sales made in US dollars, which reduces gross margin and the cash flow available to fund operations. The Company also has an investment in a US integrated operation, whose net assets are exposed to foreign currency translation risk.

For the three month period ended September 30, 2008, if the rate of exchange between the US and Canadian dollar were to have fluctuated by 1%, an all other variables were held constant, the impact on the Company's earnings before income taxes would be nominal.

Liquidity Risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions. The Company manages liquidity by having appropriate lines of credit available and monitoring cash requirements to meet expected operational expenses including debt service and capital requirements.

Fair Value of Financial Instruments
The Company's financial instruments consist of accounts receivable, demand operating loan, accounts payable and accrued liabilities and term loan. The fair values of accounts receivable, demand operating loan, accounts payable and accrued liabilities, as recorded in the consolidated balance sheets approximate their carrying amounts due to the short-term maturities of these instruments. The long-term secured term loan reflects current market interest rates and therefore the carrying amount approximate fair value.

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, 2008, the Company had $2.7 million (June 30, 2008 - $2.3 million) outstanding on its operating line of credit with a Canadian Chartered Bank.
(b) At September 30, 2008 the Company had $2.5 million (June 30, 2008 - $2.3 million) in accounts receivable due from the Canadian Federal government.

14 FINANCIAL INSTRUMENTS (continued)

(c) At September 30, 2008 the Company had $0.4 million (June 30, 2008 - $0.2 million) cash on deposit with a Canadian Chartered Bank and $0.2 million cash on deposit with a U.S. Bank (June 30, 2008 - $0.1 million).

(d) At September 30, 2008 the Company had $1.5 million (June 30, 2008 - $1.0 million) outstanding on its variable rate secured term loan facility with the Business Development bank of Canada.

(e) 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.

15. CAPITAL DISCLOSURES

The Company's capital structure is comprised of Shareholders' equity and long-term debt. The Company's fundamental objective in managing capital is to ensure adequate liquidity and financial flexibility to meet its financial obligations and finance organic growth and acquisitions. The Company monitors and assesses its financial performance in order to ensure that its net debt levels are prudent. When reviewing financing decisions, the Company considers the impact of debt and equity financing on its existing and future shareholders. The Company has established a committed revolving line of credit and long-term debt that provides liquidity and flexibility.

16. SEGMENTED INFORMATION

	Canadian Operations	US Operations	Consolidated Total
For the three months ended September 30, 2008			
Revenue	$ 5,654,235	$ 2,060,637	$ 7,714,872
Elimination of inter-segment revenue	(5,180)	(3,326)	(8,506)
Total revenue	5,649,055	2,057,311	7,706,366
Gross margin	1,445,047	427,975	1,873,022
Expenses	1,617,001	259,875	1,876,876
Amortization	116,140	65,820	181,960
Income taxes	(193,571)	-	(193,571)
Net income (loss) after taxes	**$ (94,523)**	**$ 102,280**	**$ 7,757**
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) after taxes	$ 301,528	$ (182,572)	$ 118,956

16. SEGMENTED INFORMATION (continued)

SEGMENTED INFORMATION	*Canadian Operations*	*US Operations*	*Total*
AS AT SEPTEMBER 30, 2008			
Assets			
Current assets	**$ 8,887,584**	**$ 2,270,582**	**$ 11,158,166**
Property, plant and equipment	**1,220,497**	**482,797**	**1,703,294**
Intangible, Other assets, Future Income Tax	**3,092,272**	**1,777,792**	**4,870,064**
Goodwill	**5,459,017**	**2,995,204**	**8,454,221**
	$ 18,659,370	**$ 7,526,375**	**$ 26,185,745**
AS AT JUNE 30, 2008			
Assets			
Current assets	$ 9,124,644	$ 2,110,999	$ 11,235,643
Property, plant and equipment	1,229,495	453,263	1,682,758
Intangible, Other assets, Future Income Tax	2,754,631	1,845,222	4,599,853
Goodwill	5,459,017	2,995,204	8,454,221
	$ 18,567,787	$ 7,484,264	$ 25,972,475

Sales for the three months ended September 30	***2008***	*2007*
Domestic	**$ 6,044,451**	$ 5,094,319
United States	**1,432,898**	1,168,354
International	**229,017**	402,487
	$ 7,706,366	$ 6,665,160

The Company operates in the defence and public safety sectors. Its current operations are based in Ontario and Nova Scotia, Canada and in Tennessee, USA. Included in Q1 revenue were sales of $0.78 million to the Canadian Federal Government (Q1 2007 - $6.96 million) which represents 10.1% (Q1 2007 - 78.0%) 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.

17. 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 30,2008. 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.

Over the next five years, the Company is committed to operating leases in respect of its premises and equipment as follows:

2009	$564,349
2010	554,008
2011	542,815
2012	516,353
2013	225,271
Total	$2,402,796

18. RELATED PARTY TRANSACTIONS

During the quarter the Company paid nil (Q1fiscal *2007* - $43,731) in consulting and professional fees to a company controlled by 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.

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