



Investor Report

Fiscal 2010, Quarter One

Interim Results for the three month period ended
September 30, 2009 with Comparative Results for 2008

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, 2009. It is recommended that the information provided in this report be read in conjunction with PSP's consolidated financial statements and notes for the twelve month period ended June 30, 2009, message to shareholders and other management discussions included in the Company's annual report. The information in this report includes information available to November 13, 2009, 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.

FIRST QUARTER HIGHLIGHTS

- Recognized first multi-million dollar sale to the U.S. federal government.
- Increased sales from U.S. operations by more than 80% as compared to the prior year.
- Decreased selling, general and administrative expenses by \$0.3 million or 14% as compared to the prior year.
- Received National Institute of Justice standard 06 certification of key U.S. law enforcement products.

OVERVIEW OF THE BUSINESS

PSP is an established industry leader in the defence and security market. The Company is engaged in the design, production, sale and distribution of protective and duty products for Law Enforcement, Security and Defence. PSP's products are worn or included in equipment used by officers, agents, guards and military personnel. The Company has a significant market position in Canada, where it is the largest soft body armour manufacturer. The Company also provides specialized law enforcement and safety products through APS Distributors ("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's business strategy is to maintain its core body armour market while growing its portfolio of products so that more of what a customer wears or carries to the front line is sold by PSP.

PSP has a significant recurring revenue stream from its Canadian customers in the form of long standing contracts with terms of up to five years. These contracts are with federal, provincial and municipal organizations and agencies. The Company also pursues long-term defence contracts. PSP has been successful in supplying the Canadian military with fragmentation protection products and chemical and biological protection suits. The Company's U.S. business is primarily supplying state, county and municipal law enforcement agencies with soft body armour. These products are sold through a network of third party commissioned distributors.

PSP has a research and development program that works cooperatively with customers on new product design. The Company also conducts independent research in future technologies and products that will enhance user effectiveness, increase value and survivability. PSP's current research and development programs are focused on the certification of certain product lines as required by the U.S. Department of Justice and the development of products related to the Company's next generation integrated helmet program.

PSP has manufacturing operations in Arnprior, Ontario and Dover, Tennessee, a distribution centre in Bedford, Nova Scotia and its head office is located in Ottawa, Ontario. Its design and production facilities are all ISO9001 compliant. Founded in 1984, PSP has grown to currently include more than 180 employees at its Canadian and U.S. facilities.

The financial data in this report 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

A trend has emerged of reduced core sales in Canada which management now believes may be a prolonged event. Many of PSP's major customers are government departments and agencies at the federal, provincial and municipal levels. These organizations are increasingly coming under budget pressures as governments attempt to reduce spending in light of the current economic environment. This is being translated into lower sales volume and a reduced number of larger one off opportunities for PSP. This is a trend which began in the U.S. market last year but was for the most part offset by an increase in international orders fulfilled out of our U.S. operation. Although the U.S. market is slowly showing signs of recovery, management does not expect a recurrence of large international orders to offset the reduction of the core product sales in Canada, as international customers are also struggling with budget constraints. As a result, current year revenues are expected to be substantially lower than fiscal year 2009 levels.

The Company is also witnessing increased competition in the Canadian market. With depressed body armour sales, particularly in the United States, foreign manufacturers are increasingly looking to the Canadian market to offset reduced domestic sales. The impact has been increased price competition in the Canadian market. Management believes that the existence of the Company's long standing contracts in Canada will buffer it from the worst effects of this price competition in the short to medium term. However, as the Company continues to pursue new business and as long standing contracts come up for renewal, management expects that the Company will increasingly face price competition, which may result in reduced sales and/or gross margins.

The Company supplies soft body armour to state and local law enforcement agencies throughout the United States. With the recent change in the National Institute of Justice standard for ballistic resistance of body armour, management anticipates that the U.S. domestic law enforcement market will expand in the latter part of fiscal 2010 and beyond. Furthermore, management believes that the Company will be able to capture additional market share through expanded distribution channels, particularly along the United States eastern seaboard.

The Company has been increasing its focus on international opportunities in response to growth in demand for personnel armour in overseas marketplaces, particularly in Latin America and Asia. The Company has dedicated internal resources to international sales and is continuing to develop strategic partnerships in order to facilitate an expansion into international markets.

Defence opportunities continue to mature as soldier modernization programs make their way through requirements analysis. At this time management foresees these programs coming on stream as planned.

CONSOLIDATED RESULTS OF OPERATIONS

<i>SUMMARY OF OPERATIONS</i>	<i>THREE MONTHS ENDED SEPTEMBER 30, 2009</i>	<i>THREE MONTHS ENDED SEPTEMBER 30, 2008</i>
SALES	\$ 7,629,381	\$ 7,706,366
COST OF SALES	6,481,158	5,833,344
GROSS MARGIN	1,148,223	1,873,022
EXPENSES	1,763,405	2,058,836
LOSS BEFORE INCOME TAXES	(615,182)	(185,814)
INCOME TAX RECOVERY	(251,399)	(193,571)
NET AND COMPREHENSIVE INCOME (LOSS)	\$ (363,783)	\$ 7,757
BASIC AND FULLY DILUTED INCOME (LOSS) PER SHARE	\$ (0.014)	\$ -
WEIGHTED AVERAGE BASIC COMMON SHARES ISSUED AND OUTSTANDING	25,486,166	25,467,694

RESULTS OF OPERATIONS

Sales

Sales for the three month period ending September 30, 2009 were \$7.6 million, a decrease of \$0.1 million or 1.0% as compared to the same period of the prior year. The decrease in sales is primarily related to the completion of two significant Department of National Defence ("DND") contracts in the prior year and a decline in core product sales in Canada and the United States as a result of curtailed government spending, mostly offset by a significant sale to a U.S. federal government agency.

Sales in Canada for the three month period ending September 30, 2009 was \$4.0 million a decrease of \$1.6 million or 31% as compared to the same period of the prior year. The decrease is primarily related to the completion of the two significant DND contracts in the prior year and a reduction in the core body armour sales.

Sales in the United States for the three month period ending September 30, 2009 was \$3.6 million an increase of \$1.6 million or 81% as compared to the same period of the prior year. The increase is primarily related to a significant sale to a U.S. federal government agency, partially offset by reduced core body armour sales to law enforcement agencies and private security firms.

Gross Margin

For the three month period ending September 30, 2009, gross margin as a percentage of sales was 15.1% which is 9.2 percentage points lower than gross margin of 24.3% in the same period of the prior year. The decrease in gross margin is primarily related to product mix. During the quarter the Company's product mix shifted away from primarily core body armour to the sale of more third party products as a result of a significant sale to a U.S. federal government agency. The industry wide down-turn in sales has resulted in increased price competition which has depressed gross margins. These unfavourable variances were partially offset by improved gross margins in the Company's distribution business as a result of a strengthening Canadian dollar.

Expenses

For the three month period ending September 30, 2009, expenses were \$1.8 million, a decrease of \$0.3 million or 14.3% as compared to the same period of the prior year. The decrease is primarily due to savings related to the Company's integration and restructuring activities during the second quarter of the prior year. During the prior year the Company incurred restructuring costs of approximately \$0.4 million. The restructuring plan was directed at reducing costs through the reduction of administrative staff and the integration of the APS division.

For the three month period ending September 30, 2009, sales and marketing expenses were \$0.8 million as compared to \$0.9 million during the same period of the prior year. The decrease is primarily related to cost reduction initiatives in the prior year related to the integration of the APS division and the realignment of the Canadian sales function.

For the three month period ending September 30, 2009, general and administration expenses were \$0.7 million as compared to \$0.8 million during the same period of the prior year. The decrease is primarily related to the consolidation of back office functions as a result of the integration of the APS division.

Research and development expenditures for the three month period ending September 30, 2009 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. During the quarter, management deferred \$0.2 million (Q1 2009 - \$0.1 million) in development costs relating to new product development projects that have known markets and are expected to come into commercial production at a future date. The increase in deferred development costs is primarily related to the certification of certain product lines as required by the U.S. Department of Justice and the development of products related to the company's next generation integrated helmet program.

Interest on the operating lines of credit for the three month period ending September 30, 2009, was \$0.1 million compared to \$0.03 million during the same period of the prior year. Interest on long term debt for the three month period ending September 30, 2009, was \$0.02 million compared to \$0.04 million during the same period of the prior year. The decrease in interest expense is primarily attributed to the reduction in interest rates in the current quarter as compared to the same period of the prior year.

Income Taxes

Income taxes were calculated at an effective rate of 31.97% for Canadian operations and 40.0% for U.S. operations for the three month period ending September 30, 2009. 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.

Net and Comprehensive Income/ (Loss)

The Company reported net and comprehensive loss of \$0.4 million for the three month period ending September 30, 2009 as compared to net and comprehensive income of \$0.01 in the same period of the prior year. The decrease in the net and comprehensive income is primarily due to reduced gross margin as a result of a shift in product mix to lower margin items and reduced income tax recovery as a result of an increased valuation allowance on the U.S. tax losses, partially offset by reduced operating costs.

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

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.

EBITDA for the three month period ended September 30, 2009 was a loss of \$0.3 million compared to \$0.2 million of earnings during the same period of the prior year. The decrease in EBITDA as compared to the same period of the prior year is primarily due to reduced gross margin as a result of a shift in product mix to lower margin products.

The following is a reconciliation of net and comprehensive income/(loss) to EBITDA:

	<i>THREE MONTHS ENDED SEPTEMBER 30, 2009</i>	<i>THREE MONTHS ENDED SEPTEMBER 30, 2008</i>
Net and comprehensive income (loss)	\$(363,783)	\$7,757
Interest expense	67,407	70,060
Income tax recovery	(251,399)	(193,571)
Stock based compensation	7,426	91,664
Amortization	242,939	230,783
Normalized EBITDA	\$(297,410)	\$206,693

CONSOLIDATED QUARTERLY RESULTS

	<i>Q1 2010</i>	<i>Q4 2009</i>	<i>Q3 2009</i>	<i>Q2 2009</i>	<i>Q1 2009</i>	<i>Q4 2008</i>	<i>Q3 2008</i>	<i>Q2 2008</i>
Sales	\$7,629,381	\$7,187,674	\$10,548,654	\$9,592,792	\$7,706,366	\$10,210,482	\$10,639,392	\$7,282,922
Net income (loss)	\$(363,783)	(\$9,677,628)	\$417,451	\$41,758	\$7,757	\$724,690	\$299,946	(\$1,364,483)
Basic and fully diluted earnings per share	\$(0.01)	(\$0.38)	\$0.02	\$-	\$-	\$0.02	\$0.01	(\$0.05)

The Company recorded a non-cash Goodwill impairment charge of approximately \$8.5 million in Q4 of fiscal 2009.

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.

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL POSITION

<i>AS AT</i>	<i>SEPTEMBER 30, 2009</i>	<i>JUNE 30, 2008</i>
Cash	\$-	\$219,982
Operating lines of credit	\$(4,982,422)	\$(2,965,659)
Working capital	\$1,468,135	\$2,171,088
Long-term debt (long-term portion only)	\$1,107,320	\$1,160,900
Shareholders' equity	\$7,305,051	\$7,651,824

The Company's objective when managing liquidity and capital resources is to ensure it has sufficient liquidity to support its financial obligations and fund its operating and strategic plans. The Company believes that cash flow from operating activities and government funding, together with its bank operating lines of credit will be sufficient to fund anticipated working capital requirements, planned capital expenditures and research and development initiatives and debt service requirements over the next 12 months.

The Company expects demands for cash resources to decrease over the remainder of the fiscal year primarily due to a reduction in working capital requirements in concert with the anticipated reduction in sales volume, a planned reduction in capital expenditures and additional external financing to help fund the Company's research and development initiatives.

The Company has relied primarily on cash flow from operations, and government financing to fund its research and development initiatives. In fiscal year 2009, the Company entered into a contract with the National Research Council of Canada with a Contribution Agreement valued at up to \$0.5 million to begin development of a next generation integrated helmet for soldier modernization. The Company will continue to explore external financing opportunities to fund its research and development initiatives.

Due to the current lack of profitability and the general condition of the financial markets, the Company's ability to obtain additional equity financing on favourable terms is limited.

CASH FLOW

CASH FLOW	THREE MONTHS ENDED SEPTEMBER 30, 2009	THREE MONTHS ENDED SEPTEMBER 30, 2008
Cash flow used in continuing operations	\$(1,774,930)	\$(566,713)
Cash flow used in investing activities and capital expenditures	(408,235)	(216,843)
Cash flow from financing activities	1,963,183	576,896
	\$(219,982)	\$(206,660)

Cash flow used in operating activities for the three month period ended September 30, 2009 was \$1.8 million as compared to \$0.6 million during the same period of the prior year. The increase in cash flow used in operating activities is primarily due to a build up in inventory related to a new DND multi-year contract and a significant contract extension with a large federal government agency. Accounts receivable also increased due to significant sales during the last month of the quarter.

The cash flow used in investing activities for the three month period ended September 30, 2009 was \$0.4 million as compared to \$0.2 million during the same period of the prior year. The increase in cash flow used in investing activities is primarily related to the Company's investment in the certification of products under the National Institute of Justice new standard and the development of the Company's next generation helmet liner.

Cash flow from financing activities for the three month period ended September 30, 2009 was \$2.0 million as compared to \$0.6 million during the same period of the prior year. The increase in cash flow from financing activities was primarily from the Company's operating lines of credit and was used to fund the increased working capital requirements of the Company.

WORKING CAPITAL

At September 30, 2009, PSP's working capital was \$1.3 million as compared to \$2.2 million as at June 30, 2009. The decrease in working capital is primarily related to an increase in the operating lines of credit due to the earnings shortfall during quarter and investments in product development and capital expenditures.

Accounts receivable as at September 30, 2009 increased by \$1.8 million to \$5.7 million from \$3.9 million as at June 30, 2009. This increase is primarily related to a significant sale to a U.S. federal government agency during the last month of the quarter.

Inventory as at September 30, 2009 increased by \$0.6 million to \$4.8 million as compared to \$4.2 million as at June 30, 2009. This increase is primarily related to a new DND multi-year contract and a significant contract extension with a large Canadian federal government agency.

Bank Indebtedness

The Company has in place a \$5.0 million operating line of credit with a Canadian Chartered bank. At September 30, 2009 the Company had a balance of \$4.5 million outstanding on this line of credit. The Company also has a \$1.4 million USD operating line with a U.S. Chartered bank. At September 30, 2009, the Company had a balance of \$0.4 million outstanding on this line of credit.

Bank Covenants

Pacific Safety Products Inc. is required to meet certain covenants as outlined in its credit facility with its Canadian chartered bank. As at September 30, 2009, the company did not meet the Tangible Net Worth ("TNW") covenant as stipulated in its credit facility. The Company expects to violate this covenant throughout fiscal year 2010.

On November X, 2009, the Company was notified by its lender that it acknowledges the TNW covenant violation and will waive the violation as at September 30, 2009 and for the remainder of fiscal year 2010 provided that the Company's financial position does not further deteriorate.

FUTURE INCOME TAXES

At September 30, 2009, the Company had approximately \$2.1 million in Canadian non capital tax loss carry forwards and \$2.8 million USD in U.S. tax loss carry forwards available.

In accordance with Canadian general accepted principles ("GAAP"), the Company does not recognise future income tax assets related to its U.S. operations.

PROPERTY AND EQUIPMENT AND OTHER ASSETS

For the three month period ended September 30, 2009, the Company invested \$0.20 million in property and equipment, and \$0.21 million in new product development costs and intangible assets as compared to \$0.10 and \$0.10 million, respectively during the same period of the prior year. During the year, product development costs were reduced by \$0.01 million related to funding received from the National Research Council Canada to begin development of a next generation Integrated Helmet for soldier modernization. The Company expects to receive approximately \$0.4 million from the National Research Council over the next six months to fund this program.

SHARE CAPITAL AND CONTRIBUTED SURPLUS

At September 30, 2009, PSP's issued and outstanding shares totaled 25,654,605 compared to 25,654,605 at June 30, 2009. The Company's Contributed Surplus balance totaled \$1.2 at September 30, 2009, compared to \$1.2 at June 30, 2009.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") CHANGEOVER PLAN

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 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. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy that must be addressed.

The Company continues to make progress with its IFRS changeover plan. The Company has engaged third party consultants who completed a high-level preliminary assessment, which prioritizes how each IFRS standard will impact the financial statements, systems and business activities. The technical implementation team is currently focusing their efforts on the higher impact areas and has continued with ongoing training sessions provided by external advisors. The Company is also continuing to assess the impact of the conversion on its business activities, including the effect on information technology and data systems, internal controls over financial reporting and disclosure controls.

RISK 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 lines, with a balance of \$4.5 million and the Company's secured loan facility with a balance of \$0.4 million at September 30, 2009, 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 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 Company also uses foreign exchange contracts to fix the exchange rates on certain foreign currency exposures. The nature of PSP's business allows the Company to naturally hedge future normal foreign currency payments with future normal foreign currency collections.

ADOPTION OF NEW ACCOUNTING STANDARDS

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, "Goodwill and Intangible Assets", which replaced the existing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard has had no material impact on the financial position or results of operations of the Company.

FUTURE CHANGES IN ACCOUNTING STANDARDS

(a) In June 2009, the CICA issued amendments to the existing Section 3862, "Financial Instruments -Disclosures", to more closely align the section with those required under IFRS. The amendments include enhanced disclosure requirements relating to fair value measurements of financial instruments and liquidity risks. These amendments apply for annual financial statements with fiscal years ending after September 30, 2009. The adoption of the amendments to Section 3862 are not expected to have a material impact on the disclosures of the Company.

(b) In January 2009, the CICA issued three new accounting standards which are based on the International Accounting Standards Board's International Financial Reporting Standard 3, "Business Combinations". Section 1582, "Business Combinations", which replaces Section 1581 with the same title, aims to improve the relevance, reliability and comparability of the information provided in financial statements about business combinations. This Section is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2011 and assets and liabilities that arose from business combinations that preceded the adoption of this standard should not be adjusted upon adoption. Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", replace Section 1600, "Consolidated Financial Statements", and establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements beginning on or after January 1, 2011. Earlier adoption of all three standards is permitted as of the beginning of a fiscal year, however if an entity chooses to early adopt all three standards must be adopted concurrently. The Company is currently evaluating the impact of these new standards.

(c) 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 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. 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.

Forward Looking Statements: This information document may contain forward looking statements based on expectations, estimates and projections of the management of Pacific Safety Products Inc. (the "Company"). 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, results of cost reduction initiatives 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 information document and in documents 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 anticipated. These factors include, but are not limited to the potential impact of the current economic downturn on the Company's business, the unpredictability of purchasing patterns by governmental agencies, the possibility of a deterioration in the Company's working capital position, the impact on the Company's liquidity if it were to go offside of the covenants in its debt facilities, the impact that changes in supplier payment terms or slow payment of accounts receivable could have on the Company's liquidity, the unavailability of or increase in price of external capital to finance the Company's research, development and growth initiatives, changes in the laws, regulations, policies and economic conditions, including inflation, interest and foreign currency exchange rates fluctuations of countries in which the Company does business, competitive pressures, successful integration of structural changes or downsizing initiatives, including restructuring plans, acquisitions, divestitures and alliances, cost of raw material, the uncertainty associated with the outcome of 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, 2009 (UNAUDITED)	JUNE 30, 2009 (AUDITED)
ASSETS		
CURRENT ASSETS		
Cash	\$ -	\$ 219,982
Accounts receivable (note 4)	5,737,797	3,969,566
Inventory (note 5)	4,825,963	4,192,903
Prepaid expenses and deposits	424,023	403,641
Future income taxes recoverable (note 6)	80,000	13,120
Total Current Assets	11,067,783	8,799,212
INVESTMENT TAX CREDITS RECOVERABLE	564,494	534,494
FUTURE INCOME TAXES RECOVERABLE (note 6)	118,224	-
PROPERTY AND EQUIPMENT	1,802,874	1,710,647
PRODUCT DEVELOPMENT COSTS	1,535,150	1,378,038
INTANGIBLE ASSETS	2,993,906	3,077,949
TOTAL ASSETS	\$ 18,082,431	\$ 15,500,340
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Operating lines of credit (note 7)	4,982,422	2,965,659
Accounts payable and accrued liabilities	4,402,906	3,448,145
Current portion of long-term debt	214,320	214,320
Total Current Liabilities	9,599,648	6,628,124
FUTURE INCOME TAX LIABILITY (note 6)	-	59,492
LONG-TERM DEBT	1,107,320	1,160,900
TOTAL LIABILITIES	10,706,968	7,848,516
SHAREHOLDERS' EQUITY		
Share Capital	17,600,017	17,600,017
Contributed surplus	1,194,001	1,176,991
Deficit	(11,488,967)	(11,125,184)
TOTAL SHAREHOLDERS' EQUITY	7,305,051	7,651,824
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 18,012,019	\$ 15,500,340

ON BEHALF OF THE BOARD OF DIRECTORS:



John Brodie, Director



Martin Carsky, Director

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

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

	<i>THREE</i> <i>MONTHS ENDED</i> <i>SEPTEMBER 30, 2009</i>	<i>THREE</i> <i>MONTHS ENDED</i> <i>SEPTEMBER 30, 2008</i>
SALES	\$ 7,629,381	\$ 7,706,366
COST OF SALES (note 5)	6,481,158	5,833,344
GROSS MARGIN	1,148,223	1,873,022
EXPENSES		
Sales and marketing	786,991	893,058
Research and development	81,849	75,649
General and administration	674,047	822,548
Interest on operating lines of credit	50,171	33,993
Interest on long-term debt	17,236	36,067
Foreign exchange loss/(gain)	(27,255)	15,560
Amortization of property and equipment	42,110	43,732
Amortization of intangible and other assets	138,256	138,229
Total expenses	1,763,405	2,058,836
LOSS BEFORE INCOME TAXES	(615,182)	(185,814)
INCOME TAXES		
Current income tax expense recovery	(6,803)	(21,219)
Future income tax expense recovery	(244,596)	(172,352)
Total income tax expense recovery (note 6)	(251,399)	(193,571)
NET AND COMPREHENSIVE INCOME/(LOSS)	(363,783)	7,757
DEFICIT, BEGINNING	(11,125,184)	(1,914,522)
DEFICIT, ENDING	\$ (11,488,967)	\$ (1,906,765)
LOSS PER SHARE		
BASIC AND FULLY DILUTED	\$ (0.014)	\$ -
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
BASIC	25,486,166	25,467,694
DILUTED	25,486,166	25,467,694

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

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

	<i>THREE</i> <i>MONTHS ENDED</i> <i>SEPTEMBER 30, 2009</i>	<i>THREE</i> <i>MONTHS ENDED</i> <i>SEPTEMBER 30, 2008</i>
OPERATING ACTIVITIES		
Cash receipts from customers	\$ 5,756,172	\$ 8,447,172
Cash paid to suppliers and employees	(7,440,498)	(8,913,825)
Interest paid	(67,407)	(70,060)
Other	(23,197)	(30,000)
CASH FLOW USED IN OPERATING ACTIVITIES	(1,774,930)	(566,713)
INVESTING ACTIVITIES		
Purchase of property and equipment	(196,910)	(113,090)
Investment in product development	(204,748)	(96,678)
Investment in intangible assets	(6,577)	(7,075)
CASH FLOW USED IN INVESTING ACTIVITIES	(408,235)	(216,843)
FINANCING ACTIVITIES		
Proceeds from the issue of long-term debt	-	100,000
Repayment of long-term debt	(53,580)	-
Increase in operating lines of credit	2,016,763	476,896
CASH FLOW FROM FINANCING ACTIVITIES	1,963,183	576,896
DECREASE IN CASH	(219,982)	(206,660)
CASH , BEGINNING	219,982	657,257
CASH, ENDING	\$ -	\$ 450,597

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 ("APS") is a division of PSP located in Bedford, Nova Scotia and was acquired by PSP on October 31, 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Interim consolidated financial statements

The accounting policies used in the preparation of these interim consolidated financial statements conform with those used in the Company's annual consolidated financial statements except as described in Note 2(b). These interim consolidated financial statements do not include all disclosure requirements for annual consolidated financial statements under Canadian GAAP. Accordingly, these interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended June 30, 2009.

(b) Accounting standards and policies adopted during fiscal 2010

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, "Goodwill and Intangible Assets", which replaced the existing Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard has had no material impact on the financial position or results of operations of the Company.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the CICA issued amendments to the existing Section 3862, "Financial Instruments -Disclosures", to more closely align the section with those required under IFRS. The amendments include enhanced disclosure requirements relating to fair value measurements of financial instruments and liquidity risks. These amendments apply for annual financial statements with fiscal years ending after September 30, 2009. The adoption of the amendments to Section 3862 are not expected to have a material impact on the disclosures of the Company.

In January 2009, the CICA issued three new accounting standards which are based on the International Accounting Standards Board's International Financial Reporting Standard 3, "Business Combinations". Section 1582, "Business Combinations", which replaces Section 1581 with the same title, aims to improve the relevance, reliability and comparability of the information provided in financial statements about business combinations. This Section is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2011 and assets and liabilities that arose from business combinations that preceded the adoption of this standard should not be adjusted upon adoption. Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests", replace Section 1600, "Consolidated Financial Statements", and establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards apply to interim and annual consolidated financial statements beginning on or after January 1, 2011. Earlier adoption of all three standards is permitted as of the beginning of a fiscal year, however if an entity chooses to early adopt all three standards must be adopted concurrently. The Company is currently evaluating the impact of these new standards.

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 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. 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.

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED SEPTEMBER 30, 2009 AND 2008

4. ACCOUNTS RECEIVABLE	SEPTEMBER 30, 2009	JUNE 30, 2009
Not past due	\$ 3,460,359	\$ 2,907,895
Past due from more than one day but for no more than 30 days	2,004,660	700,133
Past due from more than 31 days but for no more than 60 days	178,970	229,630
Past due from more than 61 days	112,682	144,699
	5,756,671	3,982,357
Less: allowance for doubtful accounts	(18,874)	(12,791)
	\$ 5,737,797	\$ 3,969,566

5. INVENTORY	SEPTEMBER 30, 2009	JUNE 30, 2009
Raw materials	\$ 3,907,752	\$ 3,059,028
Work in process	164,546	180,288
Finished goods	1,192,168	1,347,875
	\$ 5,264,466	\$ 4,587,191
Less provision for inventories	(438,503)	(394,288)
	\$ 4,825,963	\$ 4,192,903

The following table sets forth details of Cost of Sales

For the three months ended September 30th

	2009	2008
Raw materials and consumables used	\$ 4,750,299	\$ 3,000,820
Labour costs	1,035,272	1,328,351
Other costs	695,587	1,504,173
	\$ 6,481,158	\$ 5,833,344

6. FUTURE INCOME TAXES	SEPTEMBER 30, 2009	JUNE 30, 2009
Future tax asset		
Loss carryforwards	\$ 1,790,423	\$ 1,564,852
Financing costs	38,458	61,199
Reserves	89,474	80,871
Harmonization tax credit	12,957	12,957
	1,931,312	1,719,879
Total gross future tax asset	1,931,312	1,719,879
Less valuation allowance	(1,079,781)	(971,966)
	851,531	747,913
Net future tax asset	851,531	747,913
Future tax liability		
Property and equipment	(257,257)	(244,595)
Goodwill, intangibles and other assets	(95,363)	(243,122)
Investment tax credits	(169,888)	(160,883)
Scientific research and development	(130,799)	(145,685)
	\$ 198,224	\$ (46,372)
Net future tax asset / (liability)	\$ 198,224	\$ (46,372)

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED SEPTEMBER 30, 2009 AND 2008

6. FUTURE INCOME TAXES (continued)	SEPTEMBER 30, 2009	JUNE 30, 2009
Financial statement disclosure		
Future income taxes recoverable - current	80,000	13,120
Future income taxes recoverable - non current	118,224	-
Future income tax liability	-	(59,492)
Net future tax asset / (liability)	\$ 198,224	\$ (46,372)

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

For the three months ended September 30th	2009	2008
Statutory income tax rate	32%	34%
Expected Canadian income tax expense	\$ (196,678)	\$ (62,248)
Increase (decrease) resulting from:		
Change in valuation allowance	107,815	(144,509)
Change in foreign exchange rate	62,552	-
Difference between Canadian and U.S. statutory income tax rates	(15,908)	-
Income tax effect of items not deductible for income tax purposes	5,018	13,186
Adjustment for prior years income tax matters	(101,166)	-
Other	113,032	-
Actual income tax recovery	\$ (25,335)	\$ (193,571)
Effective income tax rate	2%	71%
Reported as:		
Current income tax recovery	(6,803)	(21,219)
Future income tax recovery	(244,596)	(172,352)
Actual income tax recovery	\$ (251,399)	\$ (193,571)

At September 30, 2009, the Company had approximately \$2.1 million in Canadian non-capital tax loss carry forwards and \$2.8 million USD of U.S. non-capital tax loss carry forwards available (June 30, 2009 - Canadian non-capital tax loss carry forwards were approximately \$1.7 million , U.S. tax loss carry forwards were \$2.2 million USD). These unused non-capital tax losses will expire between 2026 and 2029.

7. OPERATING LINES OF CREDIT

a) Pacific Safety Products Inc. has an agreement with a Canadian chartered bank to provide advances repayable on demand with interest payable monthly calculated at the bank prime lending rate plus 2.00% per annum. The loan is secured by a first priority general security agreement over Canadian accounts receivable and inventory. The maximum operating line is \$5.0 million and is subject to margin requirements and covenants set by the lenders. At September 30, 2009 the amount drawn on the line of credit was \$4,503,688 (June 30, 2009 - \$2,965,659).

Pacific Safety Products Inc. is required to meet certain covenants as outlined in its credit facility agreement with its Canadian chartered bank. As at September 30, 2009, the Company did not meet the Tangible Net Worth ("TNW") covenant as stipulated in its credit facility. The Company expects to violate this covenant throughout fiscal year 2010.

On November X, 2009, the Company was notified by its lender that it acknowledges the TNW covenant violation and will waive the violation as at September 30, 2009 and for the remainder of fiscal year 2010 provided that the Company's financial position does not further deteriorate.

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED SEPTEMBER 30, 2009 AND 2008

7. OPERATING LINES OF CREDIT (continued)

b) Sentry Armor Systems Inc. has an agreement with a United States chartered bank to provide advances repayable on demand with interest payable monthly calculated at the bank prime lending rate plus 2.00% per annum. The loan is secured by a first priority general security agreement over U.S. accounts receivable, inventory and an assignment of insurance. The maximum operating line is \$1.4 million USD and is subject to margin requirements and covenants set by the lenders. As at September 30, 2009 Sentry Armor Systems Inc. is compliant with the covenants as set out in it's loan agreement. At September 30, 2009 the amount drawn on the line of credit was \$408,589 (June 30, 2009 - \$nil).

8. CAPITAL DISCLOSURES

The Company's objectives when managing capital are: i) to ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans, ii) to minimize the cost of capital while taking into consideration current and future industry, market and economic risks and conditions, iii) to maintain an optimal capital structure that provides necessary financial flexibility while also ensuring compliance with financial covenants.

The Company monitors and makes adjustments to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets.

The Company considers its total capitalization to include all interest bearing debt, including operating lines of credit, long-term debt (including the current portion thereof) and shareholders' equity, net of cash. The calculation is set out in the following table:

As at	SEPTEMBER 30, 2009	JUNE 30, 2009
Operating lines of credit	\$ 4,982,422	\$ 2,965,659
Current portion of long-term debt	214,320	214,320
Long-term debt	1,107,320	1,160,900
Funded debt	6,304,062	4,340,879
Less: cash	-	(219,982)
Net funded debt	6,304,062	4,120,897
Shareholders' equity	7,305,051	7,651,824
Capital under management	\$ 13,609,113	\$ 11,772,721

9. SEGMENTED INFORMATION	Canadian Operations	U.S. Operations	Consolidated Total
For the quarter ended September 30, 2009			
Revenue	\$ 4,007,751	\$ 3,800,969	\$ 7,808,720
Elimination of inter-segment revenue	(22,499)	(156,840)	(179,339)
Total revenue	3,985,252	3,644,129	7,629,381
Gross margin	885,612	262,611	1,148,223
Expenses	1,014,991	527,895	1,542,886
Amortization	114,148	66,218	180,366
Other items	51,727	(11,574)	40,153
Income tax expense (recovery)	(251,399)	-	(251,399)
Net loss after taxes	\$ (43,855)	\$ (319,928)	\$ (363,783)

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED SEPTEMBER 30, 2009 AND 2008

9 SEGMENTED INFORMATION (continued)	Canadian Operations	U.S. Operations	Consolidated Total
<i>For the quarter ended September 30, 2008</i>			
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 tax recovery	(193,571)	-	(193,571)
Net income (loss) after taxes	\$ (94,523)	\$ 102,280	\$ 7,757

AS AT SEPTEMBER 30, 2009

Assets

Current assets	\$ 8,967,522	\$ 2,020,258	\$ 10,987,780
Property and equipment	1,104,878	697,996	1,802,874
Intangible, other assets, future income tax	3,639,630	1,514,777	5,154,407
	\$ 13,712,030	\$ 4,233,031	\$ 17,945,061

AS AT JUNE 30, 2009

Assets

Current assets	\$ 6,731,687	\$ 2,067,525	\$ 8,799,212
Property and equipment	1,126,808	583,839	1,710,647
Intangible, other assets, future income tax	3,825,212	1,165,269	4,990,481
	\$ 11,683,707	\$ 3,816,633	\$ 15,500,340

Sales for the quarter ended September 30th

2009

2008

Domestic	\$ 4,210,722	\$ 6,044,451
United States	3,187,532	1,432,898
International	231,127	229,017
	\$ 7,629,381	\$ 7,706,366

The Company operates primarily in the defense and security markets. Its current operations are based in Ontario and Nova Scotia, Canada and in Tennessee, USA. Included in the first quarter revenue were sales of \$1.0 million to the Canadian Federal Government (Qtr 1 2009 - \$0.8 million) which represents 13.1% (Qtr 1 2008 - 10.1%) 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.



Pacific Safety Products Inc.

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