Pacific Safety Products Inc.

REPORT TO SHAREHOLDERS

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE NINE MONTHS ENDED MARCH 31, 2013 and 2012

This Management's Discussion and Analysis ("MD&A") of the financial position and financial performance of Pacific Safety Products Inc. (the "Company" or "PSP") has been prepared as of May 28, 2013 and should be read together with the Company's unaudited condensed consolidated interim financial statements for the nine months ended March 31, 2013, the audited annual consolidated financial statements and the notes thereto for the year ended June 30, 2012, and the Management Information Circular dated November 1, 2012. 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. All figures are in **Canadian dollars except as otherwise noted.**

The financial data has been prepared in accordance with IAS 34 *Interim Financial Reporting* and International Financial Reporting Standards ("IFRS"), except where otherwise stated, 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") website at www.sedar.com.

FORWARD-LOOKING INFORMATION

A number of the matters discussed in the MD&A deal with potential future circumstances and developments and may constitute "forward-looking" information within the meaning of applicable securities laws. These forward-looking statements relate to anticipated or assumed events or results including, without limitation, projected costs and capital expenditures, future tax losses, plans with respect to internal controls and the Company's outlook, business and capital management strategy, direction, plans, growth opportunities and objectives. Generally, forward-looking information can be identified as such because of the context of the statements and often include words or phrases such as "will", "believes", "anticipates", "predicts", "plans", "intends", "estimates", "expects", "continues", "is pursuing", "improving", "projects", "indicates", or words or phrases of a similar nature.

The forward-looking information is based on current expectations and assumptions regarding expected growth, results of operations, financial performance and business prospects and opportunities. Forward-looking information is subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or general industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include, but are not limited to, the possible failure to successfully plan and execute business improvement strategies, restrictions and covenants contained in the Company's credit agreements, 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 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 rate fluctuations of countries in which the Company does business, competition in the Company's markets, successful integration of structural changes, including resizing 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, as well as other factors described below under "Part VII: Risks and Uncertainties" and the Company's other filings with applicable securities regulatory authorities which are available at www.sedar.com. The impact of any one risk factor on a particular forward-looking statement is not determinable with certainty as such factors are interdependent upon other factors, and management's course of action would depend upon its assessment of the future, considering all information then available.

Although the Company believes that the expectations and assumptions conveyed by the forward-looking information are reasonable based on information available to it as of May 27, 2013, no assurances can be given as to future results, levels of activity and achievements. All subsequent forward-looking information, whether written or oral, attributable to the Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements and readers are cautioned not to place undue reliance or importance on this information. The Company assumes no obligation to update forward-looking statements should circumstances or management's estimates or opinions change, except as required by applicable law.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This MD&A is organized into the following parts:

I. Business Overview and Recent Events
II. Results
III. Cash Flow
IV. Liquidity and Capital Resources
V. Quarterly Results
VI. Significant Accounting Policies and Estimates
VII. Risks and Uncertainties
VIII. Other Information

Part I: BUSINESS OVERVIEW AND RECENT EVENTS

Business Overview

PSP is an established industry leader in the defence and security market. The Company is engaged in the design, production and sale 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 one of the largest soft body armour manufacturers. 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 be a preferred supplier of body armour and other personal protection solutions throughout North America.

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 primarily through a network of third party distributors.

PSP has a research and development program that works collaboratively with customers on new product design. The Company also conducts independent research in future technologies and products that will enhance user effectiveness, and 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.

PSP has manufacturing operations in Arnprior, Ontario and Dover, Tennessee and its head office is located in Arnprior, Ontario. Its design and production facilities are all ISO9001:2008 registered and compliant to BA9000 (National Institute of Justice Body Armor Quality Management Requirements).

Recent Events

On January 23, 2012, the Company announced that it had entered into a letter of intent to sell substantially all of its assets on a cash-free, debt-free basis for cash payable at closing. The letter of intent was terminated on March 5, 2012.

On April 18, 2012, the Company announced that it had entered into a letter of intent to acquire all of the issued and outstanding shares of a Canadian company in a reverse take-over transaction. On May 14, 2012, the Company announced that the letter of intent had been terminated.

The company has taken the necessary steps to align and size its operations to current North American business, while maintaining the ability to respond to new North American and international opportunities as they arise. The Company continues to focus on adding value for its customers in conjunction with revenue stability and growth. In order to further strengthen the Company's financial position and address its liquidity requirements, the Company continues to consider and evaluate on an ongoing basis, all alternatives available to it. These alternatives include, without limitation, seeking additional sources of financing, identifying and pursuing strategic partnerships, and other value enhancing opportunities. However, there can be no assurance that such efforts will result in the Company pursuing any such alternative or, if pursued, there can be no assurance any such alternative will be successfully completed and implemented.

The Company's ability to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent upon the Company's ability to restore profitable operations and/or raise additional capital.

Part II: RESULTS

SUMMARY OF OPERATIONS	***THREE MONTHS ENDED MARCH 31, 2013***	*THREE MONTHS ENDED MARCH 31, 2012*	***NINE MONTHS ENDED MARCH 31, 2013***	*NINE MONTHS ENDED MARCH 31, 2012*
REVENUES	**$ 3,354,535**	$ 5,153,175	**$ 8,980,977**	$ 12,277,508
COST OF SALES	**2,467,407**	3,647,250	**6,625,071**	8,900,222
GROSS MARGIN	**887,128**	1,505,925	**2,355,906**	3,377,286
EXPENSES	**890,567**	1,309,476	**2,800,658**	3,853,049
INCOME (LOSS) BEFORE OTHER ITEMS	**(3,439)**	196,449	**(444,752)**	(475,763)
OTHER ITEMS	**82,052**	58,448	**198,138**	1,096,049
INCOME (LOSS) BEFORE INCOME TAXES	**(85,491)**	138,001	**(642,890)**	(1,571,812)
INCOME TAX RECOVERY	**–**	–	**–**	(15,047)
NET INCOME (LOSS) FOR THE PERIOD	**$ (85,491)**	$ 138,001	**$ (642,890)**	$ (1,556,765)
OTHER COMPREHENSIVE INCOME (LOSS)	**36,821**	(41,755)	**9,676**	149,178
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**$ (48,670)**	$ 96,246	**$ (633,214)**	$ (1,407,587)
EARNINGS (LOSS) PER SHARE				
BASIC	**$ (0.001)**	$ 0.002	**$ (0.011)**	$ (0.027)
DILUTED	**$ (0.001)**	$ 0.002	**$ (0.011)**	$ (0.027)

FINANCIAL POSITION	***AS AT MARCH 31, 2013***	*AS ATJUNE 30, 2012*
TOTAL ASSETS	**$ 5,821,979**	$ 7,159,496
TOTAL LONG-TERM FINANCIAL LIABILITIES	**$ 575,742**	$ 1,607,298

Revenues

Revenues for the three months ended March 31, 2013 were $3.4 million, a decrease of $1.8 million or 34.9% as compared to $5.2 million for the same period in the prior year. Revenues from Canadian customers for the three months ended March 31, 2013 were $1.9 million, a decline of $1.9 million or 49.5% compared to the same period in the prior year. The decrease relates primarily to contract options not being exercised and timing of orders from key contracts. Revenues from U.S. and International customers for the three months ended March 31, 2013 were $1.4 million, an increase of $0.1 million or 6.9% compared to the prior year.

Revenues for the nine months ended March 31, 2013 were $9.0 million, a decrease of $3.3 million or 26.8% as compared to $12.3 million for the same period in the prior year. Revenues from Canadian customers for the nine months ended March 31, 2013 were $5.1 million, a decline of $2.1 million or 29.1% compared to the same period in the prior year. The decrease relates primarily to contract options not being exercised and timing of orders from key contracts. Revenues from U.S. and International customers for the nine months ended March 31, 2013 were $3.8 million, a decrease of $1.2 million or 23.6% compared to the prior year. The decrease is primarily related to a decline in orders from U.S. distributors.

Gross Margin

For the three months ended March 31, 2013, gross margin as a percentage of revenues was 26.4%, which was a decrease in gross margin from 29.2% during the same period in the prior year. The decrease is primarily related to operating efficiencies from higher sales volumes during the same period in the prior year.

For the nine months ended March 31, 2013, gross margin as a percentage of revenues was 26.2%, which was a decrease in gross margin from 27.5% during the same period in the prior year. Inefficiencies from reduced sales volumes were partially offset by the release of $0.07 million of royalties accrued in prior periods on signing of a new agreement.

Expenses

For the three months ended March 31, 2013, operating expenses were $0.9 million, a decrease of $0.4 million or 32.0% as compared to the same period in the prior year. The decrease in expenses is primarily related to cost reduction initiatives implemented over the last two years, including a reduction in head count, and the reduction in expenses related to the entities acquired pursuant to the Plan of Arrangement.

For the three months ended March 31, 2013, sales and marketing expenses were $0.3 million as compared to $0.4 million during the same period in the prior year. The decrease is primarily related to a reduction in head count.

For the three months ended March 31, 2013, research and development expenses were $0.19 million as compared to $0.15 million during the same period in the prior year. The development costs expense is primarily related to the development of new products and certification of certain product lines in accordance with U.S. Department of Justice standards.

For the three months ended March 31, 2013, general and administration expenses were $0.4 million as compared to $0.7 million during the same period in the prior year. The decrease is primarily due to a reduction in head count and non-recurring expenses in the prior year related to the entities acquired pursuant to the Plan of Arrangement and a proposed transaction.

For the nine months ended March 31, 2013, operating expenses were $2.8 million, a decrease of $1.1 million or 27.3% as compared to the same period in the prior year. The decrease in expenses is primarily related to cost reduction initiatives including head count reductions, lower commissions in connection with lower U.S. sales volumes, lower amortization expense due to impairment of intangible assets, and reduction in expenses related to the entities acquired pursuant to the Plan of Arrangement.

For the nine months ended March 31, 2013, sales and marketing expenses were $0.9 million as compared to $1.3 million during the same period in the prior year. The decrease is primarily related to a reduction in head count, lower U.S. sales commissions, and a reduction in amortization expense as a result of impairment of intangible assets.

For the nine months ended March 31, 2013, research and development expenses were $0.5 million as compared to $0.3 million during the same period in the prior year. The development costs expense is primarily related to the development and certification of certain product lines in accordance with U.S. Department of Justice standards as well as products upgrades and design to customer specifications.

For the nine months ended March 31, 2013, general and administration expenses were $1.4 million as compared to $2.3 million during the same period in the prior year. The decrease is primarily related to the reduction in head count and certain non-recurring expenses during the nine months ended March 31, 2012 relating to IFRS transition, entities acquired pursuant to the Plan of Arrangement effective December 31, 2010, subleasing of the Kanata premises and a proposed transaction.

Foreign exchange losses (gains)

For the three months ended March 31, 2013, foreign exchange losses were $0.02 million as compared to a gain of $0.01 million during the same period in the prior year. The increase in loss is primarily related to the impact of fluctuations in the Canadian dollar against the U.S. dollar with respect to purchases of materials in U.S. funds.

For the nine months ended March 31, 2013, foreign exchange losses were $0.01 million as compared to losses of $0.06 million during the same period in the prior year. The decrease in loss is primarily related to the impact of fluctuations in the Canadian dollar against the U.S. dollar with respect to purchases of materials in U.S. funds.

Finance costs

For the three and nine months ended March 31, 2013, finance costs declined by $0.01 million and $0.02 million, respectively, compared to the same periods in the prior year. The decrease was due to lower utilization of the credit facility and a decrease in principal outstanding on long-term debt, partially offset by an increase in the interest expense for accretion of the convertible debentures.

Onerous contract charges (settlement)

For the nine months ended March 31, 2012, the net recovery related to onerous contracts was $0.3 million with no comparable amount during the nine months ended March 31, 2013.

On August 16, 2011 the Company signed a sublease for the remaining lease term for its former head office premises in Kanata, Ontario. The Company recognized a provision for the discounted future lease payments to which the Company is committed less expected future sublease income in the amount of $0.1 million. Pursuant to a Plan of Arrangement effective December 31, 2010 the Company assumed a provision for discounted future lease payments related to the vacated manufacturing facility of a Zuni subsidiary that no longer had any operating business activities. A settlement was reached with the landlord and the lease was terminated on September 30, 2011 resulting in a release of the provision in the amount of $0.4 million.

Long-lived asset impairment

At December 31, 2011, it was determined that the remaining intangible assets of both the Canada CGU and the US CGU were fully impaired and an impairment loss of $1.2 million was recognized.

Income Taxes

Income tax expense varies from the amount that would be computed by applying the combined federal and provincial tax rate as a result of the tax effect of items not deductible for tax purposes, the tax benefit of losses not recognized and other items.

Net income (loss) for the period

For the three months ended March 31, 2013, the Company recorded a net loss of $0.09 million compared to a net income of $0.14 million during the same period in the prior year. The increase in net loss is primarily due to a reduction in revenue and gross margin which was partially offset by a reduction in expenses.

For the nine months ended March 31, 2013, the Company recorded a net loss of $0.64 million compared to a net loss of $1.57 million during the same period in the prior year. The decrease in net loss is primarily due to the long-lived asset impairment charge of $1.2 million recognized in the prior year, partially offset by the onerous contract settlement of $0.3 million during the same period. The decline in gross margin during the nine months ended March 31, 2013 was offset by the reduction in expenses.

Other comprehensive income (loss)

For the three months ended March 31, 2013, the Company recorded other comprehensive income of $0.04 million compared to other comprehensive loss of $0.04 million during the same period in the prior year. The increase in other comprehensive income is due to foreign currency translation differences relating to foreign operations.

For the nine months ended March 31, 2013, the Company recorded other comprehensive income of $0.01 million compared to other comprehensive income of $0.15 million during the same period in the prior year. The decrease in other comprehensive income is due to foreign currency translation differences relating to foreign operations.

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

Adjusted EBITDA is not a recognized performance measure under IFRS and does not have a standardized meaning prescribed by IFRS. The term EBITDA consists of net income (loss) and excludes interest, income tax expense (recovery), depreciation and amortization. Adjusted EBITDA excludes share-based compensation, foreign exchange and one-time charges and gains. Adjusted EBITDA is included as a supplemental disclosure because management believes that such a measurement provides a better assessment of the Company's operations on a continuing basis by eliminating certain non-cash charges and charges that are non-recurring. The most directly comparable measure to Adjusted EBITDA calculated in accordance with IFRS is net income (loss) for the period.

For the three months ended March 31, 2013 Adjusted EBITDA was $0.03 million compared to $0.25 million during the same period in the prior year.

For the nine months ended March 31, 2013 Adjusted EBITDA was a loss of $0.34 million compared to an Adjusted EBITDA loss of $0.21 million during the same period in the prior year.

The following is a reconciliation of net income (loss) for the period to Adjusted EBITDA:

	THREE MONTHS ENDED MARCH 31, 2013	*THREE MONTHS ENDED MARCH 31, 2012*	***NINE MONTHS ENDED MARCH 31, 2013***	*NINE MONTHS ENDED MARCH 31, 2012*
Net income (loss) for the period	**$ (85,491)**	$ 138,001	**$ (642,890)**	$ (1,556,765)
Foreign exchange losses (gains)	**17,553**	(11,865)	**9,091**	55,659
Finance costs, net	**64,499**	70,313	**189,047**	212,442
Income tax recovery	**–**	–	**–**	(15,047)
Share-based compensation	**–**	5,785	**2,800**	38,497
Depreciation and amortization	**35,317**	45,600	**103,633**	225,522
Onerous contract charges (settlement)	**–**	–	**–**	(331,957)
Long-lived asset impairment	**–**	–	**–**	1,159,905
Adjusted EBITDA	**$ 31,878**	$ 247,834	**$ (338,319)**	$ (211,744)

Part III: CASH FLOW

CASH FLOW FROM (USED IN)	***THREE MONTHS ENDED MARCH 31, 2013***	*THREE MONTHS ENDED MARCH 31, 2012*	***NINE MONTHS ENDED MARCH 31, 2013***	*NINE MONTHS ENDED MARCH 31, 2012*
Operating activities	**$ (377,918)**	$ (79,980)	**$ 206,073**	$ (867,637)
Investing activities	**(26,937)**	(351)	**(33,705)**	(196,549)
Financing activities	**(53,580)**	(53,580)	**(160,740)**	(160,740)
Increase (decrease) in cash and cash equivalents, net of bank overdraft used for cash management purposes	**$ (458,435)**	$ (133,911)	**$ 11,628**	$ (1,224,926)

Cash flow used in operating activities for the three months ended March 31, 2013 was $0.4 million as compared to cash flows used in operating activities of $0.08 million during the same period in the prior year. The increase in cash used in operating activities is primarily due to timing of revenues during the period and the related impact on timing of receipts from customers.

Cash flow used in investing activities for the three months ended March 31, 2013 was $0.03 million relating to the purchase of plant and equipment.

Cash flow used in financing activities for the three months ended March 31, 2013 relates to repayments of long-term debt and is consistent with the same period in the prior year.

Cash flow from operating activities for the nine months ended March 31, 2013 was $0.2 million as compared to cash flows used in operating activities of $0.9 million during the same period in the prior year. The increase in cash from operating activities is primarily due to the delay in receipt of payments from a significant customer that was outstanding at June 30, 2012 and collected in July 2012, as well as reductions in expenses.

Cash flow used in investing activities for the nine months ended March 31, 2013 was $0.03 million relating to the purchase of plant and equipment.

Cash flow used in financing activities for the nine months ended March 31, 2013 relates to repayments of long-term debt and is consistent with the same period in the prior year.

Part IV: LIQUIDITY AND CAPITAL RESOURCES

AS AT	***MARCH 31, 2013***	*JUNE 30, 2012*
Cash and cash equivalents	**$ 1,394,118**	$ 1,707,563
Bank indebtedness	**(285,039)**	(620,344)
Working capital	**1,645,591**	3,134,104
Long-term debt (long-term portion only)	**(464,360)**	(625,100)
Convertible debentures (long-term portion only)	**–**	(855,068)
Shareholders' equity	**(1,522,055)**	(2,049,969)

The Company's objective when managing liquidity and capital resources is to ensure that it has sufficient liquidity to support its financial obligations and fund its operating and strategic objectives.

In order to further strengthen the Company's financial position and address its liquidity requirements, the Company continues to consider and evaluate on an ongoing basis, all alternatives available to it. These alternatives include, without limitation, seeking additional sources of financing, identifying and pursuing strategic partnerships, raising additional equity, working closely with the financial institution to obtain favourable borrowing terms and other value enhancing opportunities. The Company receives continued support from its bank and lender. There was a decrease of $1.5 million in expenses in fiscal year 2012 compared to fiscal year 2011 and there has been a further decrease of $1.1 million in expenses for the nine months ended March 31, 2013 compared to the same period in the prior year. The Company expects this trend to continue.

The Company cannot be certain that cash generated from its operations will be sufficient to satisfy its liquidity requirements, and it may need to continue to raise capital by selling additional equity and/or by securing credit facilities. The Company's future capital requirements will depend on many factors, including, but not limited to, the market acceptance of its products and services. No assurance can be given that any such additional funding will be available or that, if available, it can be obtained on terms favourable to the Company.

The condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern

assumption were not appropriate. If the going concern basis was not appropriate, then adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

Working Capital

At March 31, 2013, PSP's working capital was $1.6 million compared to $3.1 million as at June 30, 2012. The decrease in working capital reflects a reduction in trade and other receivables of $1.4 million, an increase in inventory of $0.5 million and a decrease in trade and other payables of $0.4 million. The convertible debentures mature on August 17, 2013 and have therefore been classified as current liabilities as at March 31, 2013, representing $0.9 million of the decline in working capital compared to June 30, 2012.

Trade and other receivables as at March 31, 2013 were $2.0 million as compared to $3.4 million as at June 30, 2012. The decrease was due to the decline in revenues compared to the three months ended June 30, 2012 and the timing of collection of those revenues.

Inventories as at March 31, 2013 were $1.8 million as compared to $1.3 million as at June 30, 2012. The increase in inventory reflects increased purchasing to build inventory for future production.

Trade and other payables as at March 31, 2013 were $2.2 million as compared to $2.6 million as at June 30, 2012. The decrease is primarily related to timing differences and reduced expenses during the three months ended March 31, 2013.

Bank Indebtedness

PSP has a Credit Agreement with a Canadian bank (the "Bank") for a credit facility in the amount of $1.0 million. The facility is a revolving demand facility available by way of overdraft with interest payable monthly calculated at the bank prime lending rate plus 1.95% per annum. The facility is secured by cash collateral of $1.0 million and a general security agreement over all personal property of PSP and its subsidiaries. The Agreement has no financial covenants and is subject to certain general covenants as outlined in the Agreement. At March 31, 2013, the amount drawn on the overdraft facility was $0.3 million. Cash collateral held in a GIC with the Bank in the amount of $1.0 million is included in cash and cash equivalents.

Long-term Debt

The Company has a $1.4 million secured term loan with the Business Development Bank of Canada ("BDC" or the "Lender"). At March 31, 2013, the principal outstanding on the loan was $0.7 million.

Convertible Debentures

On August 17, 2010, the Company completed a private placement for gross proceeds of $1,000,000. Pursuant to the private placement, the Company issued 40 units (the "Units") at a purchase price of $25,000 per Unit. Each Unit consisted of $25,000 in principal amount of unsecured convertible debentures (the "Debentures") and 62,500 detachable common share purchase warrants (the "Warrants"). The Warrants had a one-year term and expired unexercised on August 17, 2011.

The Debentures mature on August 17, 2013, three years from the date of issuance, and bear interest at a rate of 10% per annum, payable annually in cash or common shares at the option of the Company. The Company elected to settle interest payable on convertible debentures as of August 17, 2011 in the amount of $100,000 with the issuance of 1,145,408 common shares. On August 17, 2012, the Company elected to settle the interest payable of $100,000 with the payment of $60,000 to certain debenture holders and the remaining $40,000 in interest was settled with the issuance of 800,000 common shares on October 10, 2012. The holder has the right to convert all (but not less than all), principal and accrued interest at any time to common shares at a rate of one common share per $0.10 of indebtedness.

Certain Directors and a former Director of the Company beneficially own or control, directly or indirectly, $750,000 aggregate principal amount of the Debentures.

The Debentures contain certain default provisions that would provide the holders the right to demand repayment. The Company was in compliance with these conditions at March 31, 2013.

Deferred Income Taxes

At March 31, 2013, the Company had approximately $3.6 million in Canadian tax non-capital loss carryforwards and approximately $4.3 million in U.S. tax loss carryforwards available, excluding loss carryforwards of Zuni and its subsidiaries which have no operating business activities.

Equity Instruments and Other Paid-in Capital

At March 31, 2013, the Company's issued and outstanding shares were 59,504,895. At June 30, 2012, the Company's issued and outstanding shares were 57,454,895. On October 10, 2012, the Company issued 800,000 common shares at a deemed price of $0.05 per share in settlement of $40,000 of interest payable on the Debentures and 1,250,000 common shares at a deemed price of $0.05 per share in settlement of $55,000 of accrued directors fees and $7,500 of accrued compensation. The difference between the closing price on the date of issuance of $0.035 and the deemed price of $0.05 has been allocated to contributed surplus.

The Company's contributed surplus balance was $1.9 million at March 31, 2013 compared to $1.8 million at June 30, 2012.

Other paid-in capital of $0.2 million at March 31, 2013 reflects the allocation of the equity component of convertible debentures, net of issue costs.

Capital Management

The Company's capital management strategy is designed to maintain financial strength and flexibility to support profitable growth. The Company's capital consists of accumulated debt, which is comprised of long-term debt, convertible debentures, bank indebtedness and shareholders' equity, excluding other comprehensive income (loss). The Company manages its capital structure and makes adjustments to it, based on the level of funds available to the Company to manage its operations. See "Bank Indebtedness", "Long-term Debt" and "Convertible Debentures".

The Company has not established a quantitative return on capital criteria; but rather promotes year-over-year sustainable growth.

The Company must adhere to certain covenants related to debt. See "Bank Indebtedness", "Long-term Debt" and "Convertible Debentures".

There have been no changes in the Company's approach to capital management during the period.

Part V: QUARTERLY RESULTS

Fiscal 2013		**March 31, 2013**	**December 31, 2012**	**September 30, 2012**
Revenues		**$ 3,354,535**	**$ 2,808,904**	**$ 2,817,538**
Net loss for the period		**(85,491)**	**(55,888)**	**(501,511)**
Basic and diluted loss per share		**(0.001)**	**(0.001)**	**(0.009)**

Fiscal 2012	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011
Revenues	$ 4,456,155	$ 5,153,175	$ 3,638,271	$ 3,486,062
Net income (loss) for the period	320,894	138,001	(1,397,389)	(297,377)
Basic and diluted earnings (loss) per share	0.006	0.002	(0.024)	(0.005)

Fiscal 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010
Revenues	$ 4,943,820	$ 8,286,012	$ 5,094,773	$ 4,339,091
Net loss for the period	(3,114,818)	(64,664)	(259,580)	(626,818)
Basic and diluted loss per share	(0.055)	(0.001)	(0.010)	(0.024)

Significant Fluctuations in Quarterly Results

For the three months ended March 31, 2013, the Company recorded a net loss from operations of $0.09 million or $0.001 per share. The increase in loss compared to the prior quarter is due to lower gross margin despite the increase in revenues.

For the three months ended December 31, 2012, the Company recorded a net loss from operations of $0.06 million or $0.001 per share. The decrease in loss compared to the prior quarter is due to improved gross margin and reductions in expenses.

For the three months ended September 30, 2012, the Company recorded a net loss from operations of $0.5 million or $0.009 per share. The increase in loss compared to the prior quarter is due to the decline in revenues and gross margin.

For the three months ended June 30, 2012, the Company recorded net income from operations of $0.3 million or $0.006 per share. The increase in income compared to the prior quarter is primarily due to increased gross margin and a decrease in expenses.

For the three months ended March 31, 2012, the Company recorded net income from operations of $0.1 million or $0.002 per share. The increase in income compared to the prior quarter is primarily due to increased revenues and gross margin and the long-lived asset

impairment charge of $1.2 million at December 31, 2011.

For the three months ended December 31, 2011, the Company recorded a net loss from operations of $1.4 million or $0.024 per share. The increase in the loss compared to the prior quarter is primarily due to the long-lived asset impairment charge of $1.2 million.

For the three months ended September 30, 2011, the Company recorded a net loss from operations of $0.3 million or $0.005 per share. The decrease in the loss compared to the prior quarter is due to the loss on sale of APS assets and disposal of certain intangible assets of $1.5 million recorded in the prior quarter and settlement of an onerous contract obligation in the three months ended September 30, 2011.

Part VI: SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Company's accounting policies are provided in note 3 to the consolidated financial statements for the year ended June 30, 2012.

Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In the process of applying the Company's accounting policies, management has made the following estimates and judgments, which have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements:

Impairment of non-financial assets
Impairment exists when the carrying value of a non-financial asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rates used.

Depreciation and amortization rates
In calculating the depreciation and amortization expense, management is required to make estimates of the expected useful lives of property and equipment and intangible assets.

Taxes
Deferred tax assets, if any, are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Trade and other receivables
Allowance for doubtful accounts

The Company uses historical trends and performs specific account assessments when determining the allowance for doubtful accounts. These accounting estimates are in respect to the trade and other receivables line on the Company's condensed consolidated interim statement of financial position.

The estimate of the Company's allowance for doubtful accounts could change from period to period due to the allowance being a function of the balance and composition of accounts receivable. If the future were to adversely differ from management's expectations of allowance for doubtful accounts, the Company could experience an additional bad debt charge in the future.

Inventories
Allowance for inventory obsolescence

The Company determines its allowance for inventory obsolescence based upon expected inventory turnover, inventory aging and current and future expectations with respect to product offerings. The Company reviews future revenue trends and forecasts, expected inventory requirements and inventory composition necessary to support future revenues. These accounting estimates are with respect to inventories on the Company's condensed consolidated interim statement of financial position.

The estimate for the Company's allowance for inventory obsolescence could change from period to period due to changes in product offerings and consumer acceptance of those products. If the inventory obsolescence was inadequate it would result in a charge to operations expense in the future.

Provisions
The Company estimates provisions for warranties and onerous contracts. A provision will be recognized if the Company has a legal or

constructive obligation due to a prior event. Warranties are based on historical trends. Onerous contracts are based on an unavoidable cost in excess of any future benefit. The onerous contract provision is calculated at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing the contract.

The estimate for the Company's provisions could change from period to period due to changes in historical trends, revenue or the business environment.

Part VII: 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 upon 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 risk by using a casual pool of staff and cell-based manufacturing in which production staff is 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 collection of accounts receivable could adversely affect the Company's liquidity. Management has implemented controls to ensure accounts receivable are current and suppliers payments are largely within terms. However, based on the current estimates, the Company cannot conclude that existing cash resources, together with cash expected to be generated by operations, will be sufficient to meet operating, capital and working capital requirements for at least the next twelve-month period.

Going Concern

The condensed consolidated interim financial statements have been prepared assuming the Company will continue as a going concern. The going concern basis of presentation assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. During the nine months ended March 31, 2013, the Company incurred a loss of $0.6 million and the Company has an accumulated deficit of $20.7 million as at March 31, 2013.

The above factors raise significant doubt about the Company's ability to continue as a going concern. Management has taken actions to address these issues including seeking additional sources of financing, instituting a company-wide cost reduction program and identifying and pursuing strategic partnerships and value enhancing opportunities. The Company's ability to continue as a going concern is dependent on management's ability to successfully complete one or more of these actions, generate a profit from operations, or obtain additional financing, if required. Failure to achieve one or more of these plans could have a material adverse effect on the Company's financial condition and/or results of operations.

The Company cannot be certain that cash generated from its operations will be sufficient to satisfy its liquidity requirements, including repayment of the Debentures maturing on August 17, 2013, and it may need to continue to raise capital by selling additional equity and/or by securing credit facilities. The Company's future capital requirements will depend on many factors, including, but not limited to, the market acceptance of its products and services. No assurance can be given that any such additional funding will be available or that, if available, it can be obtained on terms favourable to the Company.

Dependence on Key Personnel

The success of the Company's operations depends on its senior management team and other key employees, as well as the ability to retain and attract skilled and qualified management and employees. The loss of the services of key personnel could have a material adverse effect on the business, financial condition, results of operations or future prospects of the Company.

Defaults under Credit Agreements

The credit facility with the Canadian bank is a demand facility. In the event that the Company was in default under the terms of the agreement, the bank may thereafter demand repayment of all amounts owing under the bank indebtedness and by virtue of the inter-lender agreement, the Lender and the Debenture holders may also demand repayment.

For further discussion with respect to defaults under the Company's credit agreements, refer to the Bank Indebtedness, Long-term Debt and Convertible Debentures sections in Part IV of this MD&A.

Other Risks

Refer to the Company's June 30, 2012 consolidated financial statements note 23 for other risks including credit risk, interest rate risk, currency risk, liquidity risk, and fair value of financial instruments.

Part VIII: OTHER INFORMATION

The authorized share capital of the Company consists of an unlimited number of common shares. As of May 28, 2013, there were 59,504,895 common shares outstanding. As of May 28, 2013, there were 5,075,000 options outstanding.

Condensed Consolidated Interim Financial Statements of

PACIFIC SAFETY PRODUCTS INC.

Nine months ended March 31, 2013 and 2012

(Unaudited)

Notice to Reader

The accompanying condensed consolidated interim financial statements have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

(signed) "Terry Vaudry"

Terry Vaudry
Chief Executive Officer

May 28, 2013

PACIFIC SAFETY PRODUCTS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(Unaudited)

(In Canadian dollars)

	March 31, 2013	June 30, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (note 4)	**$ 1,394,118**	$ 1,707,563
Trade and other receivables	**2,034,717**	3,431,439
Inventories	**1,778,127**	1,319,709
Prepaid expenses and deposits	**162,811**	177,622
Total current assets	**5,369,773**	6,636,333
NON-CURRENT ASSETS		
Property and equipment (note 5)	**452,206**	523,163
Intangible assets (note 6)	**–**	–
Total non-current assets	**452,206**	523,163
TOTAL ASSETS	**$ 5,821,979**	$ 7,159,496
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Bank indebtedness (note 7)	**$ 285,039**	$ 620,344
Trade and other payables	**2,204,803**	2,568,300
Short-term provisions (note 10)	**32,498**	48,801
Deferred revenue	**38,817**	50,464
Current portion of long-term debt (note 8)	**214,320**	214,320
Convertible debentures (note 9)	**948,705**	–
Total current liabilities	**3,724,182**	3,502,229
NON-CURRENT LIABILITIES		
Long-term debt (note 8)	**464,360**	625,100
Long-term provisions (note 10)	**111,382**	127,130
Convertible debentures (note 9)	**–**	855,068
Total non-current liabilities	**575,742**	1,607,298
TOTAL LIABILITIES	**4,299,924**	5,109,527
EQUITY		
Share capital (note 11)	**20,251,973**	20,180,223
Contributed surplus	**1,882,752**	1,849,202
Other paid-in capital	**234,953**	234,953
Deficit	**(20,675,508)**	(20,032,618)
Accumulated other comprehensive income	**(172,115)**	(181,791)
Total equity	**1,522,055**	2,049,969
TOTAL LIABILITIES AND EQUITY	**$ 5,821,979**	$ 7,159,496

Going concern (note 2(e))
Subsequent events (note 16)

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

PACIFIC SAFETY PRODUCTS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

(In Canadian dollars)

	Three months ended March 31, 2013	Three months ended March 31, 2012	**Nine months ended March 31, 2013**	Nine months ended March 31, 2012
REVENUES	**$ 3,354,535**	$ 5,153,175	**$ 8,980,977**	$ 12,277,508
COST OF SALES	**2,467,407**	3,647,250	**6,625,071**	8,900,222
GROSS MARGIN	**887,128**	1,505,925	**2,355,906**	3,377,286
EXPENSES				
Sales and marketing	**331,720**	416,589	**907,904**	1,265,183
Research and development	**185,358**	148,847	**487,550**	325,931
General and administration	**373,489**	744,040	**1,405,204**	2,261,935
Total expenses	**890,567**	1,309,476	**2,800,658**	3,853,049
INCOME (LOSS) BEFORE OTHER ITEMS	**(3,439)**	196,449	**(444,752)**	(475,763)
OTHER ITEMS				
Foreign exchange losses (gains)	**17,553**	(11,865)	**9,091**	55,659
Finance income (note 13)	**(342)**	(2,063)	**(8,487)**	(5,916)
Finance costs (note 13)	**64,841**	72,376	**197,534**	218,358
Long-lived asset impairment (note 6)	–	–	–	1,159,905
Onerous contract charges (settlement) (note 10)	–	–	–	(331,957)
Total other items	**82,052**	58,448	**198,138**	1,096,049
INCOME (LOSS) BEFORE INCOME TAXES	**(85,491)**	138,001	**(642,890)**	(1,571,812)
INCOME TAXES				
Current income tax recovery	–	–	–	(15,047)
NET INCOME (LOSS) FOR THE PERIOD	**(85,491)**	138,001	**(642,890)**	(1,556,765)
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation differences – foreign operations	**36,821**	(41,755)	**9,676**	149,178
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**$ (48,670)**	$ 96,246	**$ (633,214)**	$ (1,407,587)
EARNINGS (LOSS) PER SHARE *(note 14)*				
BASIC	**$ (0.001)**	$ 0.002	**$ (0.011)**	$ (0.027)
DILUTED	**$ (0.001)**	$ 0.002	**$ (0.011)**	$ (0.027)

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

PACIFIC SAFETY PRODUCTS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
(Unaudited)

FOR THE NINE MONTHS ENDED MARCH 31, 2013 and 2012
(In Canadian dollars)

	Share capital	Warrants	Contributed surplus	Other paid-in capital	Deficit	Cumulative translation account	Total
Balance, June 30, 2011	$ 20,080,222	$ 45,500	$ 1,768,027	$ 234,953	$(18,796,745)	$ (367,813)	$ 2,964,144
Net loss for the period	–	–	–	–	(1,556,765)	–	(1,556,765)
Other comprehensive income (loss):							
Foreign currency translation differences	–	–	–	–	–	149,178	149,178
Total comprehensive income (loss) for the period	–	–	–	–	(1,556,765)	149,178	(1,407,587)
Issuance of shares	100,001	–	–	–	–	–	100,001
Share-based compensation expense	–	–	38,497	–	–	–	38,497
Warrants expired	–	(45,500)	39,301	–	–	–	(6,199)
Total amounts attributable to owners	100,001	(45,500)	77,798	–	–	–	132,299
Balance, March 31, 2012	$ 20,180,223	$ –	$ 1,845,825	$ 234,953	$(20,353,510)	$ (218,635)	$ 1,688,856
Balance, June 30, 2012	**$ 20,180,223**	**$ –**	**$ 1,849,202**	**$ 234,953**	**$(20,032,618)**	**$ (181,791)**	**$ 2,049,969**
Net loss for the period	**–**	**–**	**–**	**–**	**(642,890)**	**–**	**(642,890)**
Other comprehensive income (loss):							
Foreign currency translation differences	**–**	**–**	**–**	**–**	**–**	**9,676**	**9,676**
Total comprehensive income (loss) for the period	**–**	**–**	**–**	**–**	**(642,890)**	**9,676**	**(633,214)**
Issuance of shares	**71,750**	**–**	**30,750**	**–**	**–**	**–**	**102,500**
Share-based compensation expense	**–**	**–**	**2,800**	**–**	**–**	**–**	**2,800**
Total amounts attributable to owners	**71,750**	**–**	**33,550**	**–**	**–**	**–**	**105,300**
Balance, March 31, 2013	**$ 20,251,973**	**$ –**	**$ 1,882,752**	**$ 234,953**	**$(20,675,508)**	**$ (172,115)**	**$ 1,522,055**

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

PACIFIC SAFETY PRODUCTS INC.
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
(Unaudited)

(In Canadian dollars)

	Three months ended March 31, 2013	Three months ended March 31, 2012	**Nine months ended March 31, 2013**	Nine months ended March 31, 2012
CASH FLOW FROM OPERATING ACTIVITIES				
Cash receipts from customers	**$ 2,925,877**	$ 4,196,331	**$ 10,362,637**	$ 11,628,705
Cash paid to suppliers and employees	**(3,292,205)**	(4,255,783)	**(10,060,859)**	(12,334,919)
Interest paid	**(11,932)**	(22,591)	**(104,192)**	(71,149)
Interest received	**342**	2,063	**8,487**	5,916
Income taxes recovered	**–**	–	**–**	6,319
Income taxes paid	**–**	–	**–**	(102,509)
CASH FLOW FROM (USED IN) OPERATING ACTIVITIES	**(377,918)**	(79,980)	**206,073**	(867,637)
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of property and equipment	**(26,937)**	(351)	**(33,705)**	(62,550)
Investment in intangible assets	**–**	–	**–**	(133,999)
CASH FLOW USED IN INVESTING ACTIVITIES	**(26,937)**	(351)	**(33,705)**	(196,549)
CASH FLOW FROM FINANCING ACTIVITIES				
Repayment of long-term debt	**(53,580)**	(53,580)	**(160,740)**	(160,740)
CASH FLOW USED IN FINANCING ACTIVITIES	**(53,580)**	(53,580)	**(160,740)**	(160,740)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(458,435)**	(133,911)	**11,628**	(1,224,926)
CASH AND CASH EQUIVALENTS, BEGINNING	**1,557,921**	1,144,464	**1,087,219**	2,204,709
Effect of exchange rate fluctuations on cash held	**9,593**	(9,195)	**10,232**	21,575
CASH AND CASH EQUIVALENTS, ENDING (note 4)	**$ 1,109,079**	$ 1,001,358	**$ 1,109,079**	$ 1,001,358

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

1. REPORTING ENTITY

Pacific Safety Products Inc. ("PSP" or the "Company") is a company domiciled in Canada and incorporated under the Canada Business Corporation Act. The address of the Company's head office is 124 Fourth Avenue, Arnprior, Ontario K7S 0A9. The Company manufactures and sells a comprehensive line of protective products for the defence and security markets.

The condensed consolidated interim financial statements of the Company as at and for the nine months ended March 31, 2013 comprise the Company and its subsidiaries. Nexus Armour Inc. ("Nexus") is a wholly-owned subsidiary of PSP and is the parent company of Sentry Armor Systems Inc. ("Sentry"). Sentry is incorporated in the State of Delaware, USA and commenced operations in Dover, Tennessee on July 5, 2006. In accordance with the terms of a Plan of Arrangement, Zuni Holdings Inc. ("Zuni") became a wholly-owned subsidiary of PSP effective December 31, 2010. Zuni was the parent company of MTI Leewood GmbH and MTI Specialty Silicones Inc. Zuni and its subsidiaries have no operating business activities. MTI Leewood GmbH was deregistered effective June 27, 2012.

2. BASIS OF PREPARATION

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These condensed consolidated interim financial statements do not include all of the information required for full annual consolidated financial statements and should therefore be read in conjunction with the audited annual consolidated financial statements and notes thereto for the year ended June 30, 2012.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 28, 2013.

(b) Basis of measurement

These condensed consolidated interim financial statements have been prepared on the historical cost basis except as permitted by IFRS and as otherwise indicated within these notes.

(c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements:

Impairment of non-financial assets

Impairment exists when the carrying value of a non-financial asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a discounted cash flow model. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rates used.

Depreciation and amortization rates

In calculating the depreciation and amortization expense, management is required to make estimates of the expected useful lives of property and equipment and intangible assets.

Taxes

Deferred tax assets, if any, are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable

profits together with future tax planning strategies.

Trade and other receivables
Allowance for doubtful accounts

The Company uses historical trends and performs specific account assessments when determining the allowance for doubtful accounts. These accounting estimates are in respect to the trade and other receivables line on the Company's condensed consolidated interim statement of financial position.

The estimate of the Company's allowance for doubtful accounts could change from period to period due to the allowance being a function of the balance and composition of accounts receivable. If the future were to adversely differ from management's expectations of allowance for doubtful accounts, the Company could experience an additional bad debt charge in the future.

Inventories
Allowance for inventory obsolescence

The Company determines its allowance for inventory obsolescence based upon expected inventory turnover, inventory aging and current and future expectations with respect to product offerings. The Company reviews future revenue trends and forecasts, expected inventory requirements and inventory composition necessary to support future revenues. These accounting estimates are with respect to inventories on the Company's condensed consolidated interim statement of financial position.

The estimate for the Company's allowance for inventory obsolescence could change from period to period due to changes in product offerings and consumer acceptance of those products. If the inventory obsolescence was inadequate it would result in a charge to operations expense in the future.

Provisions
The Company estimates provisions for warranties and onerous contracts. A provision will be recognized if the Company has a legal or constructive obligation due to a prior event. Warranties are based on historical trends. Onerous contracts are based on an unavoidable cost in excess of any future benefit. The onerous contract provision is calculated at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing the contract.

The estimate for the Company's provisions could change from period to period due to changes in historical trends, revenue or the business environment.

(e) Going concern

These condensed consolidated interim financial statements have been prepared assuming the Company will continue as a going concern. The going concern basis of presentation assumes the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. During the nine months ended March 31, 2013, the Company incurred a loss of $0.6 million and the Company has a deficit of $20.7 million as at March 31, 2013.

The above factors raise significant doubt about the Company's ability to continue as a going concern. Management has taken actions to address these issues including seeking additional sources of financing, instituting a company-wide cost reduction program and identifying and pursuing strategic partnerships and value enhancing opportunities. The Company's ability to continue as a going concern is dependent on management's ability to successfully complete one or more of these actions, generate a profit from operations, or obtain additional financing, if required. Failure to achieve one or more of these plans could have a material adverse effect on the Company's financial condition and/or results of operations.

The Company cannot be certain that cash generated from its operations will be sufficient to satisfy its liquidity requirements, and it may need to continue to raise capital by selling additional equity and/or by securing credit facilities. The Company's future capital requirements will depend on many factors, including, but not limited to, the market acceptance of its products and services. No assurance can be given that any such additional funding will be available or that, if available, it can be obtained on terms favourable to the Company.

The condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements,

then adjustments would be necessary to the carrying value of assets and liabilities, the reported revenues and expenses, and the statement of financial position classifications used.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out in note 3 to the consolidated financial statements for the year ended June 30, 2012 have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

4. CASH AND CASH EQUIVALENTS

		March 31, 2013		June 30, 2012
Bank balances	**$**	**354,118**	$	667,563
Guaranteed investment certificates		**1,040,000**		1,040,000
Cash and cash equivalents		**1,394,118**		1,707,563
Bank overdraft used for cash management purposes		**(285,039)**		(620,344)
Cash and cash equivalents in the statement of cash flows	**$**	**1,109,079**	$	1,087,219

Cash held in guaranteed investment certificates ("GIC") includes $1,040,000 held by the Canadian Bank as cash collateral for the overdraft facility.

5. PROPERTY AND EQUIPMENT

	Manufacturing equipment	Office equipment	Computer equipment	Leasehold improvements	Total
Cost or deemed cost					
As at June 30, 2011	$ 582,271	$ 49,114	$ 31,627	$ 188,060	$ 851,072
Additions	6,249	–	4,161	53,627	64,037
Disposals	(3,000)	–	–	(10,436)	(13,436)
Effect of movements in exchange rates	16,140	418	132	5,188	21,878
As at June 30, 2012	601,660	49,532	35,920	236,439	923,551
Additions	6,719	–	11,529	15,457	33,705
Disposals	–	–	–	–	–
Effect of movements in exchange rates	(616)	(16)	22	211	(399)
As at March 31, 2013	$ 607,763	$ 49,516	$ 47,471	$ 252,107	$ 956,857
Depreciation and impairment losses					
As at June 30, 2011	$ 171,373	$ 12,619	$ 6,549	$ 27,332	$ 217,873
Depreciation	124,253	9,456	9,059	39,631	182,399
Disposals	(1,353)	–	–	(1,864)	(3,217)
Effect of movements in exchange rates	4,214	98	110	(1,089)	3,333
As at June 30, 2012	298,487	22,173	15,718	64,010	400,388
Depreciation	64,053	5,244	5,926	28,410	103,633
Disposals	–	–	–	–	–
Effect of movements in exchange rates	358	9	25	238	630
As at March 31, 2013	$ 362,898	$ 27,426	$ 21,669	$ 92,658	$ 504,651
Net book value					
As at June 30, 2012	$ 303,173	$ 27,359	$ 20,202	$ 172,429	$ 523,163
As at March 31, 2013	**$ 244,865**	**$ 22,090**	**$ 25,802**	**$ 159,449**	**$ 452,206**

6. INTANGIBLE ASSETS

Impairment

At June 30, 2011, due to continuing losses, negative cash flow from operating activities, and the reduction in projected revenue in Canada following the sale of the distribution division, the Company assessed the recoverable amount of its cash generating units ("CGUs"). The recoverable amount of the CGUs was based on a value in use calculation.

Value in use was based on cash flows expected to be generated from each of the Company's two CGUs. The two CGUs are assets of the Canadian ("Canada") and U.S. operations ("USA"). Cash flows were projected up to the date that the assets within the CGUs are expected to be consumed by the entity. For Canada, the expected life of the CGU was 6 years and the life of the USA CGU was 6 years. The key assumptions used in the value in use calculations of the CGUs are:

- Expected life of the CGUs' assets
- Projection of cash inflows and outflows
- Discount rates

The value in use was determined using pre-tax discount rates of 25.15% and 25.55% for the Canada and USA CGUs, respectively. The discount rates applied reflect the Company's weighted average cost of capital adjusted for the risks specific to the CGU. Cash flows were projected based on past experience, actual operating results and the Company's operating plan extrapolated for a five year period. A zero growth rate was assumed beyond year 5.

Based on the value in use assessment, the carrying amount of the Canada CGU at June 30, 2011 was determined to be $1,096,000 higher than its recoverable amount and an impairment loss was recognized. The impairment loss was allocated pro-rata to the intangible assets comprising the Canada CGU. The recoverable amount of the USA CGU based on the value in use calculation exceeded the carrying amount therefore no impairment loss was recognized.

At December 31, 2011, it was determined that the remaining intangible assets of both the Canada CGU ($134,125) and the US CGU ($1,025,780) were fully impaired. A draft letter of intent ("LOI") to sell substantially all of the assets of the Company was received prior to December 31, 2011 and was signed on January 20, 2012. The value of the estimated net proceeds indicated that there was a potential impairment. As a result, management reviewed the recoverable value of each CGU and determined that the fair value less costs to sell for each CGU represented the recoverable value. Fair value was determined based on the signed LOI. The carrying value of net assets expected to be included in the sale, excluding intangible assets, exceeded the estimated net proceeds of sale. Therefore an impairment loss of $1,159,905 was recognized at December 31, 2011. The letter of intent was terminated on March 5, 2012.

At March 31, 2013, management determined that there has not been any change to the assets' value in use, fair value less costs to sell, or resulting recoverable amount. Therefore, no change to the impairment loss is required.

7. BANK INDEBTEDNESS

PSP has a Credit Agreement with a Canadian bank (the "Bank") for a credit facility in the amount of $1.0 million. The facility is a revolving demand facility available by way of overdraft with interest payable monthly calculated at the bank prime lending rate plus 1.95% per annum. The facility is secured by cash collateral of $1.0 million and a general security agreement over all personal property of PSP and its subsidiaries. The Agreement has no financial covenants and is subject to certain general covenants as outlined in the Agreement. At March 31, 2013 and June 30, 2012, the amounts drawn on the overdraft facility were $285,039 and $620,344, respectively. Cash collateral held in a GIC with the Bank in the amount of $1,040,000 is included in cash and cash equivalents at March 31, 2013 and June 30, 2012.

8. *LONG-TERM DEBT*

		March 31, 2013		June 30, 2012
Secured term loan with interest payable monthly calculated at the Lender's floating base rate of 5% at March 31, 2013 plus a variance of 0.75% 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 $17,860 commencing January 23, 2009 with the final payment on May 23, 2016. This loan is secured by a first security interest in all present and after-acquired personal property, subject only to a prior charge with respect to receivables and inventory in favour of the bank providing a Canadian credit facility.	**$**	**678,680**	$	839,420
Less current portion		**(214,320)**		(214,320)
	$	**464,360**	$	625,100

The principal installments are required to be paid as follows:

Years ending March 31,		
2014	$	214,320
2015		214,320
2016		214,320
2017		35,720
	$	678,680

9. *CONVERTIBLE DEBENTURES*

On August 17, 2010, the Company completed a private placement of $1,000,000 aggregate principal amount, consisting of 40 units (the “Units”) at a purchase price of $25,000 per Unit. Each Unit consisted of $25,000 in principal amount of unsecured convertible debentures (the “Debentures”) and 62,500 detachable common share purchase warrants (the “Warrants”).

The Debentures mature on August 17, 2013, three years from the date of issuance, and bear interest at a rate of 10% per annum, payable annually in cash or common shares at the option of the Company. The Company elected to settle interest payable on convertible debentures as of August 17, 2011 in the amount of $100,000 with the issuance of 1,145,408 common shares. On August 17, 2012, the Company elected to settle the interest payable of $100,000 with the payment of $60,000 to certain debenture holders and the remaining $40,000 in interest was settled with the issuance of 800,000 common shares on October 10, 2012. The holder has the right to convert all (but not less than all) principal and accrued interest at any time to common shares at a rate of one common share per $0.10 of indebtedness (the “Conversion Option”).

The Warrants had a one-year term and expired unexercised on August 17, 2011.

On the date of issuance, the gross proceeds in the amount of $1,000,000 were allocated based on the fair values of the Debentures ($700,049) and Warrants ($45,500) with the residual being allocated to the Conversion Option ($254,451). On the date of issuance, the fair value of the Debentures was classified as a liability, while the fair values of the Conversion Option and Warrants were classified as separate components of shareholders’ equity.

Over the three-year term, the Debentures are accreted to their principal amount through a periodic charge to accretion expense with a corresponding credit to the liability component. The accretion expense is based on the effective interest method. For the nine months ended March 31, 2013, the Company recorded accretion expense of $81,302 (nine months ended March 31, 2012 - $72,212) related to the Debentures.

The Company incurred transaction costs of $65,000 in connection with the issuance of the Debentures. These costs were

allocated to Debenture issuance costs ($45,503) and to equity issuance costs ($19,497) based on the relative fair values of the debt and equity components.

The fair value of the Debentures was estimated using the present value of future cash flows using a discount rate of 18%. The fair value of the Warrants was estimated using the Black-Scholes option pricing model assuming no expected dividends, a volatility of the Company's share price of 101%, a risk-free interest rate of 1.4%, and an expected life of one year.

Certain Directors and a former Director of the Company beneficially own or control, directly or indirectly, $750,000 aggregate principal amount of the Debentures.

The Debentures contain certain default provisions that would provide the holders the right to demand repayment. The Company was in compliance with these conditions at March 31, 2013.

10. PROVISIONS

The provision for warranties is based on estimates made from historical data associated with similar products. At March 31, 2013 the warranty liability was $55,464 (June 30, 2012 - $55,082).

During the year ended June 30, 2010, the Company implemented a restructuring plan directed at reducing costs. The balance in the restructuring provision at March 31, 2013 was $Nil (June 30, 2012 - $16,379).

On August 16, 2011 the Company signed a sublease for the remaining lease term for its former head office premises in Kanata, Ontario. The Company recognized a provision for the discounted future lease payments to which the Company is committed less expected future sublease income in the amount of $122,308. The balance in the provision for onerous contracts at March 31, 2013 was $88,416 (June 30, 2012 - $104,470).

Pursuant to a Plan of Arrangement the Company assumed a provision for discounted future lease payments related to the vacated manufacturing facility of a Zuni subsidiary that no longer had any operating business activities. A settlement was reached with the landlord and the lease was terminated on September 30, 2011 resulting in a release of the provision in the amount of $462,838.

11. CAPITAL AND OTHER COMPONENTS OF EQUITY

(a) Share capital

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

		March 31, 2013		June 30, 2012
	Number of Shares	**Amount**	Number of Shares	Amount
Beginning balance	**57,454,895**	**$ 20,180,223**	56,309,487	$ 20,080,222
Shares issued	**2,050,000**	**71,750**	1,145,408	100,001
Balance, end of period	**59,504,895**	**$ 20,251,973**	57,454,895	$ 20,180,223

On August 17, 2011, the Company issued 1,145,408 common shares at a deemed price of $0.087305 per share in settlement of interest payable on the Debentures.

On October 10, 2012, the Company issued 800,000 common shares at a deemed price of $0.05 per share in settlement of $40,000 of interest payable on the Debentures and 1,250,000 common shares at a deemed price of $0.05 per share in settlement of $55,000 of accrued directors fees and $7,500 of accrued compensation. The difference between the closing price on the date of issuance of $0.035 and the deemed price of $0.05 has been allocated to contributed surplus.

11. CAPITAL AND OTHER COMPONENTS OF EQUITY (CONTINUED)

(b) Stock Options

The Company had 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, subject to certain exceptions whereby specific board members' options expire one year after 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.

On December 22, 2010, the Board approved the New PSP Stock Option Plan. Under the New PSP Stock Option Plan, the PSP Board determines the term of any options granted, which shall not exceed ten years from the date of grant. The exercise price and vesting periods will be determined by the Board of Directors upon issuance. The expiration of any PSP option will be accelerated if the participant's employment or other relationship with PSP terminates. Vested options may be exercised until the earlier of the fixed expiry date or a period of up to one year following the date the optionee ceases to be a participant as determined by the PSP Board at the time of the option grant.

At March 31, 2013, the Company had 5,625,000 stock options outstanding with an exercise price of $0.10.

	Total		*Weighted Average Exercise Price*
Balance, June 30, 2012	4,875,000	$	0.10
Granted, November 14, 2012	750,000		0.10
Balance, March 31, 2013	**5,625,000**	**$**	**0.10**

The fair value of stock options granted during the nine months ended March 31, 2013 was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield of nil, expected volatility of 0.77, risk-free interest rate of 1.1%, and expected option life of two years. The share-based payment expense was $2,800.

The following table summarizes information regarding the Company's outstanding stock options as at March 31, 2013:

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
$0.10	5,625,000	1.54	$	0.10	5,625,000	$	0.10

Total Stock Option Pool Authorized	5,950,489
Total Stock Option Pool Remaining	325,489

On April 5, 2013, the Board approved a new Fixed Stock Option Plan ("2013 Plan") which will replace and supersede the existing stock option plan of the Company, adopted December 22, 2010. The number of shares reserved for issuance under the 2013 Plan is fixed at 5,950,489 shares.

12. OPERATING SEGMENTS

The Company's principal business activity is the manufacture and sale of a comprehensive line of protective products and accessories for the defence and security market. The Company operates in Canada through PSP with operations based in Arnprior, Ontario, and in the U.S. through its Sentry subsidiary located in Dover, Tennessee. Head office expenses, including the office of the CEO and public company costs, are reported as Corporate.

These segments represent the Company's reportable segments which are used to manage the business. The Company analyzes the performance of its operating segments based on revenue growth and operating profitability. Assets acquired pursuant to a Plan of Arrangement effective December 31, 2010 are reported as Corporate assets.

	Canadian Operations	U.S. Operations	Corporate	Consolidated Total
For the three months ended March 31, 2013				
Revenues	**$ 1,930,611**	**$ 1,428,034**	**$ –**	**$ 3,358,645**
Elimination of inter-segment revenues	**(2,540)**	**(1,570)**	**–**	**(4,110)**
Total revenues	**1,928,071**	**1,426,464**	**–**	**3,354,535**
Gross margin	**568,985**	**318,143**	**–**	**887,128**
Expenses	**551,240**	**197,178**	**142,149**	**890,567**
Other items	**82,247**	**–**	**(195)**	**82,052**
Net income (loss) after taxes	**$ (64,502)**	**$ 120,965**	**$ (141,954)**	**$ (85,491)**

	Canadian Operations	U.S. Operations	Corporate	Consolidated Total
For the three months ended March 31, 2012				
Revenues	$ 3,827,316	$ 1,415,349	$ –	$ 5,242,665
Elimination of inter-segment revenues	(7,875)	(81,615)	–	(89,490)
Total revenues	3,819,441	1,333,734	–	5,153,175
Gross margin	1,264,684	241,241	–	1,505,925
Expenses	608,229	251,946	449,301	1,309,476
Other items	60,030	(89)	(1,493)	58,448
Net income (loss) after taxes	$ 596,425	$ (10,616)	$ (447,808)	$ 138,001

12. OPERATING SEGMENTS (CONTINUED)

	Canadian Operations	U.S. Operations	Corporate	Consolidated Total
For the nine months ended March 31, 2013				
Revenues	**$ 5,231,349**	**$ 3,844,217**	**$ –**	**$ 9,075,566**
Elimination of inter-segment revenues	**(87,065)**	**(7,524)**	**–**	**(94,589)**
Total revenues	**5,144,284**	**3,836,693**	**–**	**8,980,977**
Gross margin	**1,469,569**	**886,337**	**–**	**2,355,906**
Expenses	**1,607,002**	**519,046**	**674,610**	**2,800,658**
Other items	**198,172**	**–**	**(34)**	**198,138**
Net income (loss) after taxes	**$ (335,605)**	**$ 367,291**	**$ (674,576)**	**$ (642,890)**

	Canadian Operations	U.S. Operations	Corporate	Consolidated Total
For the nine months ended March 31, 2012				
Revenues	$ 7,296,753	$ 5,151,795	$ –	$ 12,448,548
Elimination of inter-segment revenues	(38,761)	(132,279)	–	(171,040)
Total revenues	7,257,992	5,019,516	–	12,277,508
Gross margin	2,252,163	1,125,123	–	3,377,286
Expenses	1,828,363	808,817	1,215,869	3,853,049
Other items	538,013	1,026,220	(468,184)	1,096,049
Income tax expense (recovery)	–	–	(15,047)	(15,047)
Net income (loss) after taxes	$ (114,213)	$ (709,914)	$ (732,638)	$ (1,556,765)

12. OPERATING SEGMENTS (CONTINUED)

	Canadian Operations	**U.S. Operations**	**Corporate**	**Consolidated Total**
AS AT MARCH 31, 2013				
Assets				
Current assets	**$ 3,426,647**	**$ 1,757,632**	**$ 185,494**	**$ 5,369,773**
Property and equipment	**238,686**	**213,520**	**–**	**452,206**
	$ 3,665,333	**$ 1,971,152**	**$ 185,494**	**$ 5,821,979**

	Canadian Operations	U.S. Operations	Corporate	Consolidated Total
AS AT JUNE 30, 2012				
Assets				
Current assets	$ 4,546,031	$ 1,879,151	$ 211,151	$ 6,636.333
Property and equipment	281,491	241,672	–	523,163
	$ 4,827,522	$ 2,120,823	$ 211,151	$ 7,159,496

Revenues for the nine months ended March 31,	**2013**	2012
Canada	**$ 5,144,284**	$ 7,257,992
United States	**3,592,449**	4,642,983
International	**244,244**	376,533
	$ 8,980,977	$ 12,277,508

Revenues for the three and nine months ended March 31, 2013 include $0.5 million and $1.1 million, respectively, from a Canadian Provincial Government. Revenues from the Canadian Federal Government for the three and nine months ended March 31, 2013 were $0.6 million and $1.1 million, respectively (three and nine months ended March 31, 2012 - $1.7 million and $3.3 million, respectively). 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.

13. FINANCE INCOME AND FINANCE COSTS

Recognized in profit or loss:

	Three months ended March 31, 2013	Three months ended March 31, 2012	**Nine months ended March 31, 2013**	Nine months ended March 31, 2012
Interest income on bank deposits	**$ 342**	$ 2,063	**$ 8,487**	$ 5,916
Finance income	**$ 342**	$ 2,063	**$ 8,487**	$ 5,916
Interest on bank indebtedness	**$ 1,797**	$ 9,301	**$ 8,247**	$ 28,767
Interest on long-term debt	**10,134**	13,286	**32,985**	42,379
Interest on convertible debentures	**25,000**	25,000	**75,000**	75,000
Accretion of convertible debentures	**27,910**	24,789	**81,302**	72,212
Finance costs	**$ 64,841**	$ 72,376	**$ 197,534**	$ 218,358

14. LOSS PER SHARE

As the Company incurred a net loss during the nine months ended March 31, 2013 and 2012, the loss and diluted loss per common share are based on the weighted-average common shares outstanding during the period. The following outstanding instruments could have a dilutive effect in the future:

	March 31, 2013
Shares issuable on conversion of convertible debentures	**10,000,000**
Stock options	**5,625,000**
	15,625,000

15. RELATED PARTY TRANSACTIONS

Consulting expenses for services performed by a shareholder and director of the Company during the three and nine months ended March 31, 2013 were $Nil (three and nine months ended March 31, 2012 - $30,000 and $90,000, respectively). These expenses are included in general and administrative expenses.

Consulting expenses for services performed by another former director of the Company during the three and nine months ended March 31, 2013 were $Nil and $31,250, respectively (three and nine months ended March 31, 2012 - $Nil). These expenses are included in general and administrative expenses.

16. SUBSEQUENT EVENTS

On April 18, 2013, the Company granted 50,000 stock options to an officer of the Company. The options are exercisable at a price of $0.10 and expire five years from the date of grant.