



Pacific Safety Products Inc.

PSP: TSX Venture Exchange
www.pacsafety.com

Investor Report

Quarter One Fiscal 2006

For the Three Months Ended September 30, 2005 and September 30, 2004

Message to Shareholders

Review

During the first quarter of fiscal year 2006 management addressed two critical issues:

- Ramping up production quantities of our major projects
- Reducing our cost infrastructure

Both of these initiatives have yielded success. We are now in full production of both the Fragmentation Protection Vest and the Horizon One Chemical Coverall for the Canadian Department of National Defence. In the latter part of the quarter we achieved the anticipated efficiencies that bring our costs in line with planned performance.

With respect to the cost structure, significant permanent reductions were implemented throughout the organization which will on an annual basis yield more than three quarters of a million dollars of savings. The costs for this restructuring are included in our Q1 results as a one time expense.

Orders for Q1 have been steady and strong, particularly from the U.S. market. This has increased backlog and offers us the opportunity for more volume production.

During the second quarter management's focus will be on strategic issues relating to market and product offering while continuing to improve operational efficiency and cost management.

The Company has gone through some significant change over the last 90 days. It will continue to adapt to the competitive environment and lead in its innovation of product.

David E Scott

A handwritten signature in black ink, appearing to read "D. E. Scott", written in a cursive style.

Chairman of the Board.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion is intended to assist readers in better understanding and evaluating Pacific Safety Product's (PSP or the Company) history, business environment, strategies, performance and risk factors as well as the financial condition and operations for the quarter ended September 30, 2005. It is recommended the information provided be read in conjunction with PSP's interim financial statements and notes for the quarter ended September 30, 2005, Message to Shareholders and other management discussions included in the Company's June 30, 2005 annual report. The information in this report includes information available to October 25, 2005, 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 financial statements, including the maintenance of appropriate information systems, procedures and internal controls, and to ensure that information used internally or disclosed externally, including the financial statements and management's discussion and analysis, is complete and reliable.

OVERVIEW OF THE BUSINESS

PSP is an established industry leader in the production, distribution and sale of high-performance and high-quality safety products. These products primarily include body armor to protect against ballistic, stab and fragmentation threats. PSP is the largest armor manufacturer in Canada and has significant international customers. The Company also produces tactical clothing and emergency medical kits. These products are marketed under the labels **Pacific Emergency Products®**, **PROTECTED by PSP™**, **EXPLOSAFE®**, and **O₂B.O.S.S.™**. The Company's primary customers include military agencies, law enforcement agencies, private security companies and emergency medical service organizations.

The Company provides quality protection solutions by effectively integrating the latest technologies to serve these customers' needs. Founded in 1984, PSP has grown to include more than 230 employees at two Canadian facilities in Kelowna, British Columbia and Arnprior, Ontario. These facilities are equipped with complete design, production and research capabilities. The Kelowna facility has one of the most advanced non-government operated ballistic research labs in North America.

The financial data has been prepared in accordance with Canadian generally accepted accounting principles. 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.

OVERALL CORPORATE PERFORMANCE

The Company's first three months of fiscal 2006 reflected record sales of \$6.42 million, a \$4.03 million increase over the same period last year. Gross margin decreased to 19.88% from 29.07% in the first quarter of fiscal 2005. PSP recorded a net loss of \$1.03 million compared to a loss \$382,557 in the same period last year.

Overall, PSP's first quarter results were in line with management's expectations. Included in the loss of \$1.03 million was a one-time charge of \$540,000 relating to the corporate reorganization that took place early in the quarter and the closure of the Brampton facility. Other expenses increased \$461,000 with sales and marketing expenses contributing to 76% of the increase. Significant reasons for the overall increase include expanding the sales presence in the US, increased use of outside consultants and increased staff to manage the major government contracts.

Purchases of property, plant and equipment were \$86,002 for the first quarter compared to \$72,768 in the same quarter last year. Equipment purchases were required for the plant floor to meet the demands of increased production due to the government contracts.

Cash used by operations increased to \$581,362 compared to \$379,007 used in quarter one, fiscal 2005. This increase in cash used is due mainly to a \$2.9 million increase in inventory, a \$1.1 million increase in accounts receivable which is partially offset by a \$2.3 million increase in accounts payable.

SUMMARY OF OPERATIONS	THREE MONTHS ENDED SEPTEMBER 30, 2005	THREE MONTHS ENDED SEPTEMBER 30, 2004
SALES	\$ 6,417,774	\$ 2,388,244
COST OF SALES	5,141,633	1,693,886
GROSS MARGIN	1,276,141	694,358
EXPENSES	1,593,690	1,132,776
INTEREST ON LONG-TERM DEBT	141,228	150,131
OTHER ITEMS	540,000	-
TOTAL EXPENSES	2,274,918	1,282,907
LOSS BEFORE INCOME TAXES	(998,777)	(588,549)
INCOME TAX RECOVERY	27,715	(205,992)
LOSS	\$ (1,026,492)	\$ (382,557)

BASIC LOSS PER SHARE	\$	(0.054)	\$	(0.030)
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WEIGHTED AVERAGE COMMON SHARES ISSUED AND OUTSTANDING	18,954,673	12,936,438
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CASH FLOW	THREE MONTHS ENDED SEPTEMBER 30, 2005	THREE MONTHS ENDED SEPTEMBER 30, 2004
Cash flow from continuing operations	\$ (581,362)	\$ (379,007)
Investing activities and capital expenditures	\$ (87,812)	\$ (82,206)
Financing activities	\$ (176,752)	\$ 2,519,039
	\$ (845,926)	\$ 2,057,826

FINANCIAL POSITION AS AT	SEPTEMBER 30, 2005	JUNE 30, 2005	SEPTEMBER 30, 2004
Cash and cash equivalents (bank indebtedness)	\$ (134,364)	\$ 711,562	\$ 936,760
Working capital	\$ 4,360,304	\$ 5,380,271	\$ 3,548,539
Long-term debt (long-term portion only)	\$ 3,602,983	\$ 3,841,429	\$ 4,037,998
Shareholders' equity	\$ 7,633,673	\$ 8,573,995	\$ 5,541,717

QUARTERLY RESULTS

Quarterly results are presented in the following table. Quarterly revenue and earnings will vary from quarter to quarter depending on the size of the order book and the award of significant contracts to PSP. It is difficult to predict when major contracts will be awarded, the production start dates and timing of revenue from these contracts which can have a significant impact on results from quarter to quarter.

	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004
Sales	\$6,417,774	\$6,010,002	\$5,367,417	\$2,938,423	\$2,388,244	\$3,429,766	\$2,398,678	\$2,701,610
Net income (loss)	\$(1,026,492)	\$(1,621,985)	\$30,620	\$(581,749)	\$(382,557)	\$(342,442)	\$(295,378)	\$(239,140)
Basic earnings (loss) per share (1)	\$(0.054)	\$(0.086)	\$0.002	\$(0.035)	\$(0.030)	\$(0.027)	\$(0.024)	\$(0.019)

(1) Fully diluted earnings (loss) per share has not been disclosed as it is anti-dilutive.

RESULTS OF OPERATIONS

The Company reported a loss after taxes of \$1,026,492 for the quarter ended September 30, 2005 (Q1) compared to a loss after taxes of \$382,557 for the quarter ended September 30, 2004, an increased loss of \$643,935. Included in the Q1 loss was restructuring costs related to the corporate reorganization in top level management and the shut down of the Brampton, ON facility. This was a one-time cost and management does not expect it to carry forward into future quarters.

SALES

PSP recorded \$6.42 million in sales for the quarter ended September 30, 2005, which represents an increase of \$4.03 million, or 168.7% over Q1, fiscal 2005. Core sales (all non government contract sales) were \$2.4 million in quarter one compared to \$2.4 million in quarter one, fiscal 2005. The Fragmentation Protective Vest contract represented \$2.9 million or 45% of total sales and the Horizon 1 Chemical Warfare Coverall contract represented \$1.2 million or 19% of total sales.

GROSS MARGIN

Gross margin was 19.88% compared to 29.07% in the same period last year. Although significantly lower than last year's quarter one, the gross margin was in line with management's expectations and is reflective of current industry conditions. The sales mix for the quarter included a higher percentage of low margin products sold and was compounded by a lower exchange rate on our US sales. Efficiencies in direct labour on government contracts continue to improve as the labour pool becomes more experienced.

SELLING, RESEARCH, AND GENERAL ADMINISTRATION EXPENSES

Sales and marketing expenses were \$746,551 compared to \$399,741 last year, an increase of \$346,810. Sales activities this quarter are directly related to the Company's efforts to expand into the US market. Research and development expenditures totaled \$191,767 for the quarter compared to \$160,470 in the first quarter last year, an increase of \$31,297. The Product Development Group (PDG) is currently working on two projects to upgrade current product lines. General and administration (G&A) expenditures increased \$48,612 to \$536,281 compared to \$487,669 last quarter. Higher administration costs are the result of the increased use of outside consultants, professional fees relating to the restructuring and costs associated with the maintenance of the two major government contracts.

In July 2004, the Company adopted the Canadian Institute of Chartered Accountants provision to expense stock options issued to employees, directors and non-employees. This resulted in a general and administration expense of \$48,761 being recorded in the quarter.

Annual amortization of property, plant and equipment for the quarter increased \$35,359 to \$67,193 compared to \$31,834 the same quarter last year. Amortization of other assets increased \$10,702 to \$49,263 compared to \$38,561 in quarter one of fiscal 2005. New equipment purchased for the two major government contracts are now being amortized as both projects are in production. Deferred charges relating to obtaining these contracts are now being amortized over the life of the contracts. Goodwill was evaluated by management and it was determined that there was no impairment in value during the period, thus no adjustments were made.

Interest calculated on the operating line for the first quarter decreased \$11,866 to \$2,635 compared to \$14,501. The decline in this

expenditure is due to a lower average operating line balance throughout the quarter.

Interest on long-term debt decreased \$8,903 to \$141,228 compared to \$150,131 in quarter one of fiscal 2005 due to a lower outstanding principal balance. Of the total interest recorded, \$27,000 relates to an accrual of bonus interest on the outstanding balance of the subordinated debenture of which the amount of actual interest to be paid will not be calculated for five years. An additional \$18,500 has been accrued, but not paid, which is related to a 4% bonus coupon that will be paid within four months after the fiscal year end or added to the principal of the subordinated debenture to be repaid in July 2008.

Income Taxes

Income taxes were calculated at an effective rate of 36% for the quarter ended September 30, 2005.

Loss Before Interest on Long-Term Debt, Income Taxes and Expenses Related to Restructuring Costs

The Company incurred an operating loss of \$317,549, or \$0.02 per share, compared to an operating loss of \$438,418, or \$0.03 per share in the same quarter last year.

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

EBITDA for the quarter ended September 30, 2005 was \$(354,187) and \$(307,453) for the quarter ended September 30, 2004.

Loss After Taxes

In quarter one of fiscal 2006, the Company incurred a loss of \$1,026,492, or \$0.054 per share compared to a loss of \$382,557, or \$0.030 per share in the same quarter last year. This represents an increased loss of \$643,935, or \$0.024 per share.

Cash Flow

Cash flow used in operating activities was \$581,362 compared to \$379,007 in cash used in quarter one of fiscal 2005 using the direct method under generally accepted accounting principles. The change relates mainly to higher amounts paid out to suppliers and employees and lower amounts of cash received from customers. \$87,812 was used for investments in intangible assets and property, plant and equipment compared to \$82,206 in quarter one of fiscal 2005. Financing activities decreased cash by \$176,752 compared to \$2,519,039 generated in quarter one of last year. In the first quarter of fiscal 2005 the Company raised funds through an equity offering. There were no other significant changes over the period and other financing activities related mainly to the normal repayment of long-term debt.

LIQUIDITY AND CAPITAL RESOURCES

WORKING CAPITAL

PSP's liquidity was significantly enhanced last year as the Company raised gross cash proceeds of \$7.6 million through two private placement equity offerings. At September 30, 2005, PSP's working capital position was \$4,360,304 compared to \$3,548,539 at September 30, 2004. PSP has enough working capital to meet current commitments and deliver current and future orders and management does not expect it will have a working capital deficiency.

Accounts Receivable and Payable

Accounts receivable increased \$1,105,423 to \$2,956,976 compared to \$1,851,553 in the same quarter last year. Increased sales volume resulted in the higher balance this quarter. Accounts payable increased \$2,260,681 to \$3,744,138 compared to \$1,483,457 in quarter one, fiscal 2005. Increased inventory purchases for the government contracts makes up most of this difference.

Inventory

At September 30, 2005 the inventory balance was \$4,537,244 compared to \$1,668,500 in quarter one, fiscal 2005. This represents an overall increase of \$2,868,744, or 172%. This increase is the result of raw material purchases for the two major government contracts.

Bank Indebtedness

The amount drawn on the bank operating line increased to \$861,518 at September 30, 2005 compared to nil at September 30, 2004. In the past year the Company used cash and cash equivalents to secure a \$650,000 letter of credit as a performance guarantee for one of the major government contracts. In addition, payments to suppliers and employees has increased significantly in response to the increased sales activity.

Future Income Taxes Recoverable

At September 30, 2005, PSP had accumulated \$4.4 million in tax loss carry forwards available to be used against future taxable income. PSP has recorded related future income taxes recoverable of \$620,000 at September 30, 2005 (June 30, 2005 - \$620,000 September 30, 2004 - \$674,361). This amount has been recorded as a current asset as forecasts based on the current order book and shipment schedule of the FPV and H1 contracts for the Canadian Military are expected to provide enough taxable income to use up this balance in the next twelve months.

PROPERTY, PLANT AND EQUIPMENT AND OTHER ASSETS

During the year, the Company invested \$86,002 in property, plant and equipment related mainly to the purchase of equipment for the two major military contracts. Capital equipment purchased includes cutting tables, button hole machines and profile stitchers.

LONG-TERM DEBT

During the quarter the Company entered into two capital leases for computer hardware upgrades. A cash sweep payment of \$175,000 was made in September 2005 on the subordinated debenture. There were no other significant changes in long-term debt during the quarter.

SHARE CAPITAL

During the quarter, 40,000 stock options were issued with a weighted average exercise price of \$0.77 per share. 14,500 stock options, with a weighted average exercise price of \$0.60 per share, expired during the quarter. Currently there are 915,000 options outstanding with a weighted average exercise price of \$0.75 per share. This represents nearly 4.8% of PSP's issued and outstanding common shares.

OFF BALANCE SHEET FINANCING

All off-balance sheet financings are disclosed in the notes to the financial statements and relate to operating leases for equipment and rent. Two new equipment leases were entered into during the quarter.

Related Party Transactions

During the quarter the Company paid \$873 (September 30, 2004 - \$13,121) in fees to an organization related to another member of the Board of Directors. These fees were charged to general administration expense or capitalized as patents and trademarks on the balance sheet. These transactions were all in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value.

Also during the quarter, 5,000 common shares were issued on the exercise of 5,000 whole common share purchase warrants by an officer of the Company for gross proceeds of \$4,250.

Financial Instruments

As disclosed in notes 2 and 11, the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate, credit and foreign currency risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

- (a) At September 30, 2005, the Company had \$2,101,000 (June 30, 2005 - \$2,152,000, September 30, 2004 - \$2,287,000) of long-term floating rate debt.
- (b) At September 30, 2005, the Company had \$861,518 (June 30, 2005 - \$144,360, September 30, 2004 - nil) of current floating rate debt.
- (c) At September 30, 2005 the Company had \$1,737,148 (June 30, 2005 \$2,875,007, September 30, 2004 - nil) in accounts receivable due from one customer.
- (d) At September 30, 2005 the Company had \$727,154 (June 30, 2005 - \$855,922, September 30, 2004 - \$936,760 in cash on deposit with one financial institution.
- (e) At September 30, 2005 the Company held two secured letters of credit with its financial institution in the amounts of C\$650,000, and US\$750,000 (June 30, 2005 -C\$650,000 and US\$750,000, September 30, 2004 nil).
- (f) Foreign currency exchange rate risk management - a significant portion of the Company's sales are denominated in foreign currencies and, accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures.

Risks and Uncertainties

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

PSP operates in markets subject to government purchasing patterns and large tenders that are at times unpredictable and create fluctuations in the production load throughout the year. Government purchasing is typically tender driven and subject to competitive bidding. These buying patterns create the necessity of being able to quickly increase and decrease production capacity. PSP has addressed this necessity 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 receivables, 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 receivables are current and suppliers payments are within terms.

Changing interest rates could have an effect on earnings. A total of \$2,101,000 of PSP's long-term debt is subject to variable interest

rates. In addition, PSP's operating line, with a balance of \$861,518 at September 30, 2005, is also a variable rate loan. Foreign exchange rate fluctuations could lead to differences in the profitability of international contracts and orders. The majority of large international contracts are bid months in advance of when they are manufactured and shipped. These contracts are typically priced using United States dollars at an estimated future foreign exchange rate. If awarded to PSP, the receivables will generally be insured or secured by a letter of credit to ensure payment. If deemed necessary, management will enter into a foreign exchange forward contract to lock in the foreign exchange rate over the period of performance of these contracts. In addition, PSP reviews its price lists on a regular basis to ensure that it diminishes its exposure to rate changes. PSP manages its ongoing foreign currency exchange exposure by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures. The nature of PSP's business allows the Company to naturally hedge future normal foreign currency payments with future normal foreign currency collections.

PSP has a \$1.675 million subordinated debenture that includes a provision to pay bonus interest at the end of the five-year term. The bonus is based on a percentage of the best year's EBITDA out of the fiscal years 2004 to 2008. Management is accruing an estimated amount to provide for this bonus, however, this amount may change as the performance of the Company fluctuates over future periods.

PSP has significant investment tax credits and income tax loss carry forward amounts available. These items are subject to review and assessment by Canadian Income Tax authorities and could cause future adjustments to earnings.

Outlook

At the end of quarter one, fiscal 2006, the Company had approximately \$37.6 million in back orders, \$4.3 million in working capital and both of the major government contracts in production. Management has implemented significant permanent cost reductions through out the organization. The Company will continue to adapt to to the changing environment and selectively invest in new, innovative products for our customers.

MEASURES NOT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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

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

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

PACIFIC SAFETY PRODUCTS INC.
BALANCE SHEETS
(UNAUDITED)


AS AT	SEPTEMBER 30, 2005	JUNE 30, 2005	SEPTEMBER 30, 2004
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 727,154	\$ 855,922	\$ 936,760
Accounts receivable	2,956,976	3,666,650	1,851,553
Inventory (Note 4)	4,537,244	4,349,560	1,668,500
Prepaid expenses and deposits	362,903	319,213	280,385
Investment tax credits receivable	322,294	297,294	136,337
Future income taxes recoverable	620,000	620,000	674,361
Total Current Assets	9,526,571	10,108,639	5,547,896
LONG-TERM PREPAID EXPENSES AND DEPOSITS	18,586	24,072	-
FUTURE INCOME TAXES RECOVERABLE	280,852	289,586	-
PROPERTY, PLANT AND EQUIPMENT	3,235,289	3,332,417	2,810,284
OTHER ASSETS	79,336	83,447	323,706
INTANGIBLE ASSETS	427,936	471,278	310,675
GOODWILL	2,834,353	2,834,353	2,834,353
TOTAL ASSETS	\$ 16,402,923	\$ 17,143,792	\$ 11,826,914
LIABILITIES			
CURRENT LIABILITIES			
Bank indebtedness	\$ 861,518	\$ 144,360	\$ -
Accounts payable and accrued liabilities	3,744,138	4,145,748	1,483,457
Deferred revenue	101,500	6,149	162,731
Current portion of long-term debt	459,111	432,111	353,169
Total Current Liabilities	5,166,267	4,728,368	1,999,357
LONG-TERM DEBT	3,602,983	3,841,429	4,037,998
FUTURE INCOME TAXES PAYABLE	-	-	247,842
TOTAL LIABILITIES	8,769,250	8,569,797	6,285,197
SHAREHOLDERS' EQUITY			
EQUITY INSTRUMENTS (Note 5)	11,837,505	11,775,811	7,098,520
CONTRIBUTED SURPLUS (Note 6)	552,577	528,101	-
DEFICIT	(4,756,409)	(3,729,917)	(1,556,803)
TOTAL SHAREHOLDERS' EQUITY	7,633,673	8,573,995	5,541,717
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 16,402,923	\$ 17,143,792	\$ 11,826,914

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

APPROVED BY THE BOARD OF DIRECTORS:



John Jennings, Director



David Scott, Director

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

FOR THE THREE MONTHS ENDED	SEPTEMBER 30, 2005	SEPTEMBER 30, 2004
SALES	\$ 6,417,774	\$ 2,388,244
COST OF SALES		
Amortization of property, plant and equipment	53,572	44,278
Materials, labour and manufacturing overhead	5,088,061	1,649,608
Total Cost of Sales	5,141,633	1,693,886
GROSS MARGIN	1,276,141	694,358
EXPENSES		
Sales and marketing	746,551	399,741
Research and development	191,767	160,470
General and administration	536,281	487,669
Interest on operating line	2,635	14,501
Amortization of property, plant and equipment	67,193	31,834
Amortization of other assets	49,263	38,561
Total Expenses	1,593,690	1,132,776
LOSS BEFORE INTEREST ON LONG-TERM DEBT, INCOME TAXES AND RESTRUCTURING EXPENSES	(317,549)	(438,418)
INTEREST ON LONG-TERM DEBT		
Periodic interest on long-term debt	114,228	123,131
Bonus interest on subordinated debenture	27,000	27,000
TOTAL INTEREST ON LONG-TERM DEBT	141,228	150,131
EXPENSES RELATED TO RESTRUCTURING (Note 8)	540,000	-
TOTAL INTEREST ON LONG-TERM DEBT AND EXPENSES RELATED TO RESTRUCTURING	681,228	150,131
LOSS BEFORE INCOME TAXES	(998,777)	(588,549)
INCOME TAXES (RECOVERY)		
Future	(205,992)	(205,992)
Current	-	-
Total Income Tax Recovery	27,715	(205,992)
NET LOSS	(1,026,492)	(382,557)
DEFICIT, BEGINNING	(3,729,917)	(1,094,315)
CHANGE IN ACCOUNTING POLICY (Note 3)	-	(79,931)
DEFICIT, ENDING	\$ (4,756,409)	\$ (1,556,803)
BASIC LOSS PER SHARE	\$ (0.054)	\$ (0.030)
WEIGHTED AVERAGE COMMON SHARES ISSUED AND OUTSTANDING	18,954,673	12,936,438

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

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

FOR THE THREE MONTHS ENDED	SEPTEMBER 30, 2005	SEPTEMBER 30, 2004
OPERATING ACTIVITIES		
Cash receipts from customers	\$ 7,197,800	\$ 2,395,665
Cash paid to suppliers and employees	(7,662,299)	(2,657,041)
Interest paid	(116,863)	(117,631)
CASH FLOW USED BY OPERATING ACTIVITIES	(581,362)	(379,007)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(86,002)	(72,768)
Proceeds from the sale of property, plant and equipment	-	1,500
Investment in new product development	-	(4,794)
Investment in intangible assets	(1,810)	(6,144)
CASH FLOW USED BY INVESTING ACTIVITIES	(87,812)	(82,206)
FINANCING ACTIVITIES		
Repayment of long-term debt	(238,446)	(36,866)
Proceeds from the issue of capital stock	42,713	2,840,150
Costs related to financing	18,981	(284,245)
CASH FLOW FROM (USED BY) FINANCING ACTIVITIES	(176,752)	2,519,039
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(845,926)	2,057,826
CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS), BEGINNING	711,562	(1,121,066)
CASH AND CASH EQUIVALENTS (BANK INDEBTEDNESS), ENDING	\$ (134,364)	\$ 936,760
REPRESENTED BY:		
Cash and cash equivalents	\$ 727,154	\$ 936,760
Bank indebtedness	(861,518)	-
	\$ (134,364)	\$ 936,760

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

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE QUARTER ENDED SEPTEMBER 30, 2005 AND SEPTEMBER 30, 2004
(UNAUDITED)

1. NATURE OF ACTIVITIES

Pacific Safety Products Inc., incorporated under the British Columbia Company Act, manufactures, distributes and sells a complete line of specialty safety products including military and government products, law enforcement products and emergency and industrial safety products.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

These interim unaudited financial statements follow the same accounting policies and methods of application as the most recent audited financial statements dated June 30, 2005. The disclosures provided herein are incremental to those included in the audited annual financial statements. These interim unaudited financial statements should be read in conjunction with the Company's June 30, 2005 audited annual financial statements.

Use of Estimates

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

Loss Per Share

Basic loss per share is calculated by dividing the loss for the period by the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating the dilutive effect of the outstanding stock options and other dilutive securities. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. The fully diluted loss per share has not been presented, as it is anti-dilutive.

Financial Instruments

The Company carries a number of financial instruments. The Company is exposed to credit risk as certain receivables comprise a significant portion of the Company's accounts receivables and a significant portion of the Company's cash is held at one financial institution. The Company is exposed to currency risk arising from its financial instruments as a substantial number of transactions are denominated in United States dollars. The Company is exposed to interest rate risk as a portion of its long-term debt and its operating line are based on a floating interest rate. Unless otherwise noted, the fair value of these financial instruments approximates the carrying values.

Stock Based Compensation Plans

Direct awards of stock and liabilities based on the price of common stock are measured at fair value at each reporting date, with the change in fair value reported in the statements of operations. Under the fair value based method, stock-based payments are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of non-cash stock-based payments is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of non-cash stock-based payments that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

Under the fair value based method, compensation cost attributable to awards that are direct awards of shares, or share appreciation rights, which call for settlement by the issuance of equity instruments, is measured at fair value at the grant date, and recognized over the vesting period. Compensation costs attributable to awards, which call for settlement in cash or other assets, is measured at fair value at the grant date, and recognized over the vesting period. For awards that vest at the end of a vesting period, compensation cost is recognized on a straight-line basis; for awards that vest on a graded basis, compensation is recognized on a pro-rata basis over the vesting period. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

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3. CHANGE IN ACCOUNTING POLICY

Effective July 1, 2004, the Company adopted the new provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870 "Stock-Based Compensation and other Stock-Based Payments" which now requires companies to adopt the fair value based method for all stock-based payments granted on or after January 1, 2002. As a result, the Company is required to expense stock options issued to employees, directors and non-employees. Previously, the Company was only required to disclose the pro forma effect of any stock options issued to employees and directors in the notes to the financial statements. This change was applied retroactively in fiscal 2005 resulting in an adjustment to retained earnings of \$79,931.

4. INVENTORY	SEPTEMBER 30, 2005	JUNE 30, 2005	SEPTEMBER 30, 2004
Raw materials	\$ 4,314,065	\$ 3,727,471	\$ 1,455,288
Work in process	157,306	461,313	45,051
Finished goods and samples	65,873	160,776	168,161
	\$ 4,537,244	\$ 4,349,560	\$ 1,668,500

5. EQUITY INSTRUMENTS

Authorized

The authorized share capital of the Company consists of 100,000,000 voting common shares without par value.

Issued	<i>Number of Shares</i>	<i>Amount</i>
Balance, June 30, 2005	18,929,342	\$ 11,775,811
Exercise of warrants (a)	50,250	42,713
Financing cost recovery	-	18,981
Balance, September 30, 2005	18,979,592	11,837,505

Stock Options

At September 30, 2005, the Company had 915,000 stock options outstanding with exercise prices ranging from \$0.29 to \$1.95. Of the options outstanding at September 30, 2005, 90,000, with a weighted average exercise price of \$1.21, do not fully vest until twelve months after issuance.

	<i>Management And Employees</i>	<i>Senior Management</i>	<i>Executive Officers</i>	<i>Board of Directors</i>	<i>Total</i>	<i>Weighted Average Exercise Price</i>
Balance, June 30, 2005	-	30,000	530,000	329,500	889,500	\$ 0.74
Issued	-	10,000	-	30,000	40,000	\$ 0.77
Expired	-	-	-	(14,500)	(14,500)	\$ 0.60
Balance, September 30, 2005	-	40,000	530,000	345,000	915,000	\$ 0.75
Weighted Average Exercise Price	\$ -	\$ 1.31	\$ 0.64	\$ 0.85	\$ 0.75	
Weighted Average Remaining Contractual Life (years)	-	4.63	2.76	3.53	3.11	
Total Stock Option Pool Authorized						2,000,000
Total Stock Option Pool Remaining						649,500

The fair value of stock options in previous years was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield (nil), expected volatility (0.09), risk-free interest rate (5.0%), and weighted average life of five years. The fair value of stock options in the current quarter was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield (nil), expected volatility (0.74), risk-free interest rate (2.3%), and weighted average life of five years.

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5. EQUITY INSTRUMENTS (continued)

Common Share Purchase Warrants

<i>Expiry date</i>	<i>Note</i>	<i>Exercise Price</i>	<i>Issued</i>	<i>Exercised</i>	<i>Expired/ Cancelled</i>	<i>September 30, 2005</i>	<i>Weighted Average Remaining Life</i>
September 23, 2005		\$ 0.85	1,999,998	336,537	1,663,461	-	-
January 9, 2006		\$ 3.75	874,999	-	-	874,999	0.27
Warrants outstanding		-	2,874,997	336,537	1,663,461	874,999	-

The fair value of warrants was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield (nil), expected volatility (0.31), risk-free interest rate (5%), and weighted average life of one year.

Compensation Units

During fiscal 2005 the Company issued Compensation Options to an underwriter to purchase Units of the Company. Each Compensation Unit consists of one common share and one-half purchase warrant.

<i>Expiry date</i>	<i>Note</i>	<i>Exercise Price</i>	<i>Issued</i>	<i>Option Value</i>	<i>Warrant Value</i>	<i>September 30, 2005</i>	<i>Weighted Average Remaining Life</i>
January 9, 2006		\$ 2.75	131,250	77,197	42,712	119,909	0.27

The fair value of the Compensation Units was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield (nil), expected volatility (0.31), risk-free interest rate (5%), and weighted average life of one year.

Equity Instruments Outstanding	SEPTEMBER 30, 2005	JUNE 30 2005	SEPTEMBER 30, 2004
Common shares, issued and outstanding	18,979,592	18,929,342	16,649,275
Stock options	915,000	889,500	858,000
Warrants	874,999	2,588,710	1,999,998
Compensation Units - shares	131,250	431,250	300,000
Compensation Units - warrants	65,625	215,625	150,000
Employee Share Ownership Plan	21,795	31,980	57,470
Fully diluted equity instruments	20,988,261	23,086,407	20,014,743

(a) During the first quarter of fiscal 2006, 50,250 common shares were issued through the exercise of whole share purchase warrants for cash proceeds of \$42,713.

6. CONTRIBUTED SURPLUS

Balance, June 30, 2005	\$ 528,101
Stock option compensation expense (a)	24,476
Balance, September 30, 2005	\$ 552,577

The fair value of stock options and compensation options was estimated using the Black-Scholes option-pricing model with the following assumptions: (a) dividend yield (nil), expected volatility (0.74), risk-free rate (2.3%) and weighed average life of five years.

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7. DOMESTIC AND EXPORT SALES	<i>Domestic</i>	<i>United States</i>	<i>International</i>	<i>Total</i>
FISCAL 2006 QUARTER ONE SALES				
Law Enforcement Products	\$ 1,417,212	\$ 153,507	\$ 14,735	\$ 1,585,454
Government and Military Products	4,338,013	-	-	4,338,013
Safety and Industrial Clothing Products	-	-	-	-
Emergency and Industrial Safety Products	224,680	269,627	-	494,307
	\$ 5,979,905	\$ 423,134	\$ 14,735	\$ 6,417,774
FISCAL 2005 QUARTER ONE SALES				
Law Enforcement Products	\$ 1,025,970	\$ 323,973	\$ 57,066	\$ 1,407,009
Government and Military Products	502,798	-	-	502,798
Emergency and Industrial Safety Products	170,210	245,312	62,915	478,437
	\$ 1,698,978	\$ 569,285	\$ 119,981	\$ 2,388,244

8. EXPENSES RELATED TO RESTRUCTURING

On August 31, 2005 the Company announced a significant restructuring of the organization that resulted in the resignation of several members of its Executive Leadership Team and the closure of its Brampton Facility. The total restructuring expense comprises:

Severance and recruitment costs	\$405,547
Facility closure and other restructuring costs	134,453
Total Restructuring costs	\$540,000

9. CONTINGENCIES AND COMMITMENTS

The Company has commitments to certain of its suppliers for purchase orders extending over a two-year period. The commitments total approximately \$12.3 million and are related to the purchase of raw materials for the two major government contracts.

10. RELATED PARTY TRANSACTIONS

During the quarter the Company paid \$873 (September 30, 2004 - \$13,121) in fees to an organization related to a member of the Board of Directors. These fees were charged to general administration expense or capitalized as patents and trademarks on the balance sheet. These transactions were all in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value.

Also during the quarter, 5,000 common shares were issued on the exercise of 5,000 whole common share purchase warrants by an officer of the Company for gross proceeds of \$4,250.

11. FINANCIAL INSTRUMENTS

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

- At September 30, 2005, the Company had \$2,101,000 (June 30, 2005 - \$2,152,000, September 30, 2004 - \$2,287,000) of long-term floating rate debt.
- At September 30, 2005, the Company had \$861,518 (June 30, 2005 - \$144,360, September 30, 2004 - nil) of current floating rate debt.
- At September 30, 2005 the Company had \$1,737,148 (June 30, 2005 \$2,875,007, September 30, 2004 - nil) in accounts receivable due from one customer.
- At September 30, 2005 the Company had \$727,154 (June 30, 2005 - \$855,922, September 30, 2004 - \$936,760 in cash on deposit with one financial institution.
- At September 30, 2005 the Company held two secured letters of credit with its financial institution in the amounts of C\$650,000, and US\$750,000 (June 30, 2005 -C\$650,000 and US\$750,000, September 30, 2004 - nil).
- Foreign currency exchange rate risk management - a significant portion of the Company's sales are denominated in foreign currencies and, accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates. The

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Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures.

12. COMPARATIVE FIGURES

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



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