

MANAGEMENT DISCUSSION AND ANALYSIS

Mission

...we bring everyday heroes home safely.™

The following discussion is intended to assist readers in better understanding and evaluating Pacific Safety Products ("PSP" or the "Company") history, business environment, strategies, performance and risk factors as well as the financial condition and operations for the quarter ended March 31, 2007. It is recommended the information provided be read in conjunction with PSP's consolidated financial statements and notes for the quarter ended March 31, 2007 and the consolidated financial statements and notes for the year ended June 30, 2006, message to shareholders and other management discussions included in the Company's 2006 annual report. The information in this report includes information available to May 15, 2007, and includes forward-looking statements based on current expectations and is subject to risks and uncertainties. Many internal and external factors may cause actual results to differ materially. Unless otherwise indicated all dollar amounts shown are expressed in Canadian dollars.

Management is responsible for the preparation and integrity of the consolidated financial statements, including maintenance of appropriate information systems, procedures and internal controls, and to ensure that information used internally or disclosed externally, including the consolidated financial statements and management's discussion and analysis, is complete and reliable.

OVERVIEW OF THE BUSINESS

PSP is an established industry leader in the development, production, distribution and sale of high-performance and high-quality protective products for the defence and security market. These products include body armour to protect against ballistic, stab and fragmentation threats, ballistic blankets to reduce blast effects, and protective products against chemical and biological hazards. PSP is the largest armour manufacturer in Canada and supplies its products to the Canadian Department of National Defence (DND), federal government agencies and major law enforcement organizations across the country. The Company, through its subsidiary Sentry Armor Systems Inc., provides body armour products to U.S. based law enforcement and private security firms.

The Company provides quality protection solutions by effectively integrating the latest technologies to serve our customers' needs. Founded in 1984, PSP has grown to include more than 305 employees at our Canadian and U.S. facilities. These facilities are equipped with complete design, production and research capabilities.

The financial data has been prepared in accordance with Canadian generally accepted accounting principles and the Company's reporting currency is the Canadian dollar. Pacific Safety Products Inc. is a reporting issuer in Canada in the provinces of British Columbia, Alberta and Ontario. The Company trades on the TSX Venture Exchange under the symbol PSP. Additional regulatory information relating to Pacific Safety Products Inc. can be found at the System for Electronic Document Analysis and Retrieval ("SEDAR") web site at www.sedar.com.

Market Conditions

The defence industry sector serviced by PSP products is experiencing significant expansion as a result of on-going military engagements through-out the world and heightened risk of terrorist events. Concern for the protection of deployed forces has driven demand for tactical armour and fragmentation protection for both people and equipment. PSP continues to provide tactical armour and load carriage equipment to various units of Canada's DND. Under DND's Clothe the Soldier Program, PSP is delivering Fragmentation Protection Vests and the Horizon 1 Chem/Bio Coveralls. Two contract amendments were issued over the past year increasing quantities on the Fragmentation Protection Vest contract. DND is also moving forward with its Integrated Soldier System Program (ISSP) which is intended to improve situational awareness for the dismounted soldier.

PSP enjoys a dominant position in the Canadian domestic market for law enforcement and private security. The Company is experiencing steady demand within this well established market. In addition, PSP has seen strong growth in the requirement for body armour for new customers such as the Canadian Border Services Agency and various correctional agencies.

Demand for soft armour products remains strong in the United States. To better address this market, PSP has established a U.S. subsidiary, Sentry Armor Systems Inc. Sentry currently manufactures and sells tactical clothing and soft armour based on the PSP product line.

Given current industry and market conditions, demand for products serving the security and defense sector is expected to grow steadily and PSP is prepared to provide effective protective solutions for its customers by seeking out the latest technologies to serve their needs.

OVERALL CORPORATE PERFORMANCE

The Company recorded net income before taxes of \$753,449 for the third quarter of fiscal 2007. This compares to net income before taxes of \$765,362 in the same quarter last year. The current quarter's net income includes the results of operations of the Company's U.S. subsidiary, Sentry Armor Systems Inc. (Sentry) which began operations in July 2006, as shown in Note 7 of the Q3 financial statements. Net income before taxes for the nine months ending March 31, 2007 from the Canadian operations was \$3 million. The U.S. operations incurred a net loss before taxes of \$ 1.2 million in the same period.

CONSOLIDATED RESULTS OF OPERATIONS

<i>SUMMARY OF OPERATIONS</i>	<i>THREE MONTHS ENDED MARCH 31, 2007</i>	<i>THREE MONTHS ENDED MARCH 31, 2006</i>	<i>NINE MONTHS ENDED MARCH 31, 2007</i>	<i>NINE MONTHS ENDED MARCH 31, 2006</i>
SALES	\$ 10,585,366	\$ 9,195,213	\$ 28,016,350	\$ 22,817,487
COST OF SALES	8,014,456	6,763,228	21,195,245	17,186,083
GROSS MARGIN	2,570,910	2,431,985	6,821,105	5,631,404
EXPENSES	1,746,774	1,396,778	4,819,574	4,260,187
OTHER ITEMS	70,687	269,845	219,853	1,099,005
TOTAL EXPENSES AND OTHER ITEMS	1,817,461	1,666,623	5,039,427	5,359,192
INCOME BEFORE INCOME TAXES	753,449	765,362	1,781,678	272,212
INCOME TAX EXPENSE	398,124	23,180	1,005,938	36,467
INCOME	\$ 355,325	\$ 742,182	\$ 775,740	\$ 235,745
BASIC AND FULLY DILUTED INCOME PER SHARE	\$ 0.018	\$ 0.039	\$ 0.040	\$ 0.012
WEIGHTED AVERAGE BASIC COMMON SHARES ISSUED AND OUTSTANDING	19,274,478	19,082,805	19,193,548	19,010,683

Sales and Profitability

The Company reported net income after taxes for the three months ended March 31, 2007 of \$355,325 or \$0.018 per share compared to \$742,182 or \$0.039 per share in Q3 of fiscal 2006. Year to date net income after taxes was \$775,740 or \$0.040 per share compared to a net income after taxes of \$235,745 or \$0.012 per share for the nine months ended March 31, 2006.

PSP's sales for the third quarter were \$10.6 million, up from \$9.2 million last year, an increase of 15.2%. PSP recorded \$28.0 million in sales for the nine months ended March 31, 2007, which represents an increase of \$5.2 million, or 23% over the same period last year. Of the total quarterly sales, \$3.55 million or 33.8% relate to the two major Federal government contracts.

Gross Margin

Consolidated gross margin for the quarter decreased to 24.29% of revenue as compared to 26.45% in the same quarter last year due to the absorption of Sentry's overhead. Gross margin for the Canadian operations alone in quarter three was 26.79% which is in line with last year's third quarter gross margin. Consolidated year to date gross margin was 24.35% compared to 24.68% in the same period last year.

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

The total of these expenses for the third quarter was \$1,746,774 compared to \$1,396,778 in the same quarter last year, an increase of \$349,996. As a percentage of revenue, these expenses increased to 16.50% compared to 15.19%. The majority of this increase relates to increased sales and marketing activities and a one-time restructuring expense of \$118,796 in Sentry. The majority of the increase in general and administration expenses is due to the reallocation of insurance costs from manufacturing overhead to general and administration expenses.

Research and development (R&D) expenditures for the quarter totaled \$58,981 compared to \$113,595 in quarter three last year, a decrease of \$54,614. Expenses included in this category include the costs related to ballistic research materials, testing, product designs, patterns, labour and overhead. During the quarter, management deferred \$32,417 in R&D costs relating to new product development projects that have known markets and are expected to come into commercial production at a future date.

Amortization of property, plant and equipment decreased by \$8,334 to \$66,109 in quarter three compared to \$74,443 in the same quarter last year. Amortization of other assets decreased by \$12,549 to \$61,205 compared to \$73,754 in quarter three, fiscal 2006. In the comparative quarter last year there was an increase in deferred product development costs and start up costs relating to Sentry Armor Systems Inc.

There was no interest incurred on the operating line for the three months ended March 31, 2007 and March 31, 2006.

Interest on long-term debt decreased \$74,643 to \$70,687 compared to \$145,330 in the same quarter last year. The decrease is the result of management's successful negotiation in the previous year of an additional principal payment and an early payment of a bonus interest requirement on the subordinated debenture. Included in last year's Q3 long-term debt expense was \$33,000 for the accrual of the EBITDA bonus interest requirement of which there is none recorded in this year's Q3 as it was fully paid in fiscal 2006. The balance of the subordinated debenture at March 31, 2007 is \$800,000 compared to \$1.85 million at March 31, 2006.

Restructuring Expenses

There were no restructuring expenses in the current quarter compared to \$124,515 in the same quarter last year. Last year's expenses related to the corporate restructuring that included the closure of the Brampton, ON facility. These expenses were recorded separately on the income statement as they were deemed by management to be one-time costs that were not reflective of current operations and were not expected to be incurred in future periods.

Income Taxes

Income taxes were calculated at an effective rate of 34.12% for Canadian operations and 34% for U.S. operations for the quarter ended March 31, 2007. Income tax expense on Canadian earnings for the current quarter varies from the amount that would be computed by applying the combined federal and provincial tax rate as a result of using tax losses available to reduce income taxes otherwise payable and the tax effect of items not deductible for tax purposes. The future tax benefit of the U.S. losses has not been recorded in the quarter due to the lack of earnings history to support recognition at this time.

Income after Taxes

The Company reported income after taxes of \$355,325 for the third quarter (2006 Q3 - \$742,182) which resulted in basic and diluted earnings per share of \$0.018 (2006 Q3 - \$0.039). The difference in net income from this year's Q3 to last year's is predominantly due to the recognition of a taxes relating to the Canadian operations and the unrecognized loss carry forwards of Sentry Armor Systems Inc.

Year to date income after taxes was \$775,740 resulting in \$0.040 basic and diluted earnings per share compared to a year to date income of \$235,745 and a \$0.012 basic and diluted earnings per share last year.

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

EBITDA for the quarter ended March 31, 2007 was \$1,012,123 compared to \$1,107,485 for the quarter ended June 30, 2006. Year to date EBITDA was \$2,532,437 and \$1,236,098 for the comparable period last year.

CONSOLIDATED QUARTERLY RESULTS

	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005
Sales	\$10,585,366	\$8,512,038	\$8,918,945	\$9,369,317	\$9,195,213	\$7,204,500	\$6,417,774	\$6,010,002
Net income (loss)	\$355,325	\$177,918	\$242,497	\$741,766	\$742,182	\$520,055	\$(1,026,492)	\$(1,621,985)
Basic and fully diluted earnings (loss) per share	\$0.018	\$0.009	\$0.013	\$0.038	\$0.039	\$0.027	\$(0.054)	\$(0.086)

The Company has reported positive earnings for the previous six quarters. In the first quarter of fiscal 2006, the Company underwent a significant corporate restructuring which resulted in a one-time expense of \$673,515 being recorded to March 31, 2006. The loss in quarter four of fiscal 2005 was, in part, the result of management's assessment of several projects that were deemed to have no future benefit and were subsequently written off.

Cash Flow

Cash flow used by operating activities was \$26,414 compared to \$1,963,835 of cash generated in the same quarter last year. The significant increase in accounts receivable at quarter end and the cash injection in Sentry Armor Systems Inc. are the reasons for the decline in cash generated from operations compared to Q3, last year. The cash used to supplement Sentry's operations is in line with management's expectations for the three quarters of the U.S. subsidiary. The Company also invested \$84,169 in new product development, intangible assets and property, plant and equipment compared to \$97,330 in quarter three of fiscal 2006. These expenditures were in the normal course of business to maintain the current production facilities. Financing activities decreased cash by \$53,856 compared to \$22,056 used in the same quarter, last year. Financing activities included normal principal repayments on the secured loan and proceeds received from the January 2007 issuance of shares under the Company's Employee Share Ownership Plan.

<i>CASH FLOW</i>	<i>THREE MONTHS ENDED MARCH 31, 2007</i>	<i>THREE MONTHS ENDED MARCH 31, 2006</i>	<i>NINE MONTHS ENDED MARCH 31, 2007</i>	<i>NINE MONTHS ENDED MARCH 31, 2006</i>
Cash flow from (used for) continuing operations	\$ 26,414	\$ 1,963,835	\$ 312,764	\$ 2,404,335
Investing activities and capital expenditures	\$ (84,169)	\$ (97,330)	\$ (407,522)	\$ (225,803)
Financing activities	\$ (53,856)	\$ (22,056)	\$ (560,346)	\$ (215,867)
	\$ (111,611)	\$ 1,844,449	\$ (655,104)	\$ 1,962,665

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL POSITION

AS AT	MARCH 31, 2007	JUNE 30, 2006
Cash and cash equivalents	\$ 1,477,782	\$ 2,132,886
Working capital	\$ 6,062,327	\$ 5,581,621
Long-term debt (long-term portion only)	\$ 1,952,000	\$ 2,532,000
Shareholders' equity	\$ 10,691,843	\$ 9,812,233

WORKING CAPITAL

At March 31, 2007, PSP's working capital was \$6,062,327 compared to \$5,581,621 at June 30, 2006. PSP has sufficient working capital to meet current commitments and deliver current and future orders and expects to continue to generate cash flow from operations based on current orders in place.

Accounts Receivable

Accounts receivable at March 31, 2007 increased \$3,387,768 to \$7,136,811 from \$3,749,043 at June 30, 2006, an increase of 90.4%. Of this total, \$4.7 million or 66.9% relates to receivables from the Federal Government. Less than 2% of total receivables are over 60 days and management has not identified any bad debts.

Inventory

Inventory at March 31, 2007 increased \$483,628 to \$5,396,930 compared to \$4,913,302 at June 30, 2006. The increase in inventory is due to the procurement of raw materials to satisfy current orders in hand and a general increase in production volume. Fluctuations in inventory may occur due to the timing of contract wins and availability of certain raw materials.

Bank Indebtedness

The Company has in place a \$2 million operating line of credit with a Canadian Chartered bank. At March 31, 2007 and June 30, 2006 no balances were outstanding on this line of credit.

Bank Covenants

At March 31, 2007 and June 30, 2006, the Company was compliant with all covenants set out by its lenders.

Investment Tax Credits Receivable (ITC)

The Company has accumulated \$577,048 in investment tax credits receivable relating to scientific research and development expenses incurred in previous periods. These ITC's will be used to reduce taxes payable in future periods. At March 31, 2007 the Company reported ITC's of \$40,535 (June 30, 2006 - \$440,263) which represents the net amount of ITC's receivable after offsetting the estimated taxes payable accrued to date.

Investment tax credits are recorded as a reduction to research and development expenses on the income statement. The SR&ED claim for fiscal 2006 was filed with the Canada Revenue Agency (CRA) and was assessed as filed.

Future Income Taxes

Loss carry forwards of approximately \$976,199 USD for the U.S. operation, Sentry Armor Systems Inc, have not been recorded in this quarter due to the lack of earnings history to support these loss carry forward assets being recognized at this time. Future tax assets of both the Canadian and U.S. operations will be assessed on a quarterly basis.

PROPERTY, PLANT AND EQUIPMENT AND OTHER ASSETS

During the quarter, the Company invested \$47,921 in property, plant and equipment, \$32,417 in new product development costs and \$3,831 in patents, trademarks and deferred start up costs. Segmented information on these assets can be found in Note 7 of the March 31, 2007 financial statements.

LONG-TERM DEBT

The Company made regular principal and interest repayments on the secured debenture during the quarter.

EQUITY INSTRUMENTS AND CONTRIBUTED SURPLUS

During the quarter, PSP issued 22,465 shares under its Employee Share Ownership Plan for net proceeds of \$20,016. At March 31, 2007, PSP's issued and outstanding shares totaled 19,240,718 compared to 19,155,491 at June 30, 2006.

In March, the Company entered into an agreement with Acumen Capital Finance Partners Limited to complete a Private Placement, on a "best efforts" agency basis, of 4,500,000 Subscription Receipts of the Company at a price of \$1.00 per Subscription Receipts for aggregate gross proceeds of \$4,500,000. The close of the Private Placement occurred on March 27, 2007. Net proceeds of the Private Placement will be used to complete an acquisition of a U.S. body armour business ("Acquisition"). Each Subscription Receipt is exchangeable for one common share of the Company upon closing of the "Acquisition", which has received U.S. Federal Court approval.

OFF BALANCE SHEET FINANCING

The Company does not have any significant off balance sheet financing arrangements and there were no significant changes in operating leases from those disclosed in the MD&A for the year ended June 30, 2006.

RELATED PARTY TRANSACTIONS

During the quarter, PSP paid \$43,731 (March 31, 2006 - nil) in professional fees to a member of the Board of Directors and to an organization related to another member of the Board of Directors. These fees were charged to general administration expense. These transactions were all in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value.

FINANCIAL INSTRUMENTS

As disclosed in note 2 and 10 of the Q3 financial statements, the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate, credit and foreign currency risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

- (a) At March 31, 2007, the Company had \$1,786,000 (June 30, 2006 - \$1,948,000) of long-term floating rate debt.
- (b) At March 31, 2007 the Company had \$4,740,922 (June 30, 2006 - \$1,894,461) in accounts receivable due from the Canadian Federal government.
- (c) At March 31, 2007 the Company had \$1,250,639 (June 30, 2006 - \$2,390,830) cash on deposit with a Canadian Chartered

Bank and \$139,926 cash on deposit with a U.S. Bank.

- (d) At March 31, 2007 the Company held a secured letter of credit with its financial institution in the amount of US \$750,000.
- (e) Foreign currency exchange rate risk management - a portion of the Company's sales are denominated in foreign currencies and, accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures. The effect of a 1% change in foreign currency exchange rates would have a nominal effect on the financial results of the Company.

SUBSEQUENT EVENTS

On April 5, 2007 the Company's U.S. subsidiary, Sentry Armor Systems Inc., entered into an agreement to acquire the assets of Gator Hawk Armor Inc, a U.S. based soft body armor business located in Ventura, California. The aggregate purchase price of the acquisition is \$3,465,000 USD in cash and \$385,000 USD in common shares of the Company and an amount up to \$300,000 USD based on certain revenue targets of the Gator Hawk product line being achieved in fiscal 2008. The acquisition closed on April 30, 2007 and 429,621 shares were issued from treasury.

On April 30, 2007, 4,500,000 Subscription Receipts held by Acumen Capital Partners Inc were exchanged for 4,500,000 common shares of the Company.

In April 2007, the Company entered into a \$3.5 million USD option contract to hedge against fluctuations in the value of the US dollar.

Subsequent to quarter end the Company entered into an sale/leaseback agreement for the manufacturing facility in Kelowna, BC for \$3 million. The Company has entered into a 10 year lease for 15,000 square feet.

DISCLOSURE CONTROLS AND PROCEDURES

During the current quarter, management reviewed the existing disclosure controls and procedures and, based on that review, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

RISKS AND UNCERTAINTIES

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

PSP operates in markets subject to government purchasing patterns and large tenders that are at times unpredictable and create fluctuations in the production load throughout the year. Government purchasing is typically tender driven and subject to competitive bidding. These buying patterns create the necessity of being able to quickly increase and decrease production capacity. PSP has addressed this by using cell based manufacturing in which production staff are grouped into cells. Cells can quickly be added or reduced in order to mitigate the impact of large contracts on regular production of core products. In addition, large contracts often create a situation where a significant portion of the Company's revenue and accounts receivable may be from a small number of customers increasing the risks of economic dependence and concentration of credit.

The Company's working capital position is dependent on the timely collection of accounts receivable, inventory management and scheduled supplier payments. A change in supplier payment terms or slow payment of accounts receivable could adversely affect the Company's liquidity. Management has implemented controls to ensure accounts receivable are current and suppliers payments are within terms.

Changing interest rates could have an effect on earnings. A total of \$1,786,000 of PSP's long-term debt is subject to variable interest rates. In addition, PSP's operating line, with a balance of nil at March 31, 2007, 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 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

The Company's U.S. subsidiary, Sentry Armor Systems Inc. continues to progress according to management's expectations and has increased production consistently quarter over quarter. The Company is currently in negotiations to purchase the assets of an established U.S. soft body armor manufacturer which will be integrated into the operations in Dover, TN. Management expects that the increased distribution channels and product line recognition of this acquisition will result in increased net earnings beginning in the fourth quarter of fiscal 2007.

The Company has also announced a transition plan to move volume manufacturing from its Kelowna, BC facility to its Amprior, ON location. This location will be the Centre of Excellence for volume manufacturing in Canada, Dover, Tennessee will be the Centre of Excellence for U.S. operations while the Corporate Head Office including Product Development, Materials Management and Customer Service will remain in Kelowna, BC. By moving the volume manufacturing closer to the suppliers and customers, management expects to see increased savings in freight and shipping and other overhead costs.

MEASURES NOT IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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

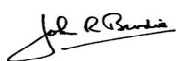
EBITDA (earnings before interest, income taxes, depreciation and amortization), while not a concept recognized by generally accepted accounting principles, is an indirect measure for operating cash flow, a significant indicator of the success of any business.

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

**PACIFIC SAFETY PRODUCTS INC.
CONSOLIDATED BALANCE SHEETS**

AS AT	MARCH 31, 2007 (UNAUDITED)	JUNE 30, 2006 (AUDITED)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,477,782	\$ 2,132,886
Accounts receivable (note 10)	7,136,811	3,749,043
Inventory (note 3)	5,396,930	4,913,302
Prepaid expenses and deposits	473,375	387,654
Investment tax credits receivable	40,535	440,263
Future income taxes recoverable (note 4)	-	468,656
Total Current Assets	14,525,433	12,091,804
FUTURE INCOME TAXES RECOVERABLE (note 4)	210,055	267,767
PROPERTY, PLANT AND EQUIPMENT	2,997,442	3,115,031
OTHER ASSETS	326,403	233,817
INTANGIBLE ASSETS	213,263	311,644
GOODWILL	2,834,353	2,834,353
TOTAL ASSETS	\$ 21,106,949	\$ 18,854,416
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 6,125,776	\$ 4,993,746
Deferred revenue	1,695,318	849,008
Current portion of long-term debt	642,012	667,429
Total Current Liabilities	8,463,106	6,510,183
LONG-TERM DEBT	1,952,000	2,532,000
TOTAL LIABILITIES	10,415,106	9,042,183
SHAREHOLDERS' EQUITY		
EQUITY INSTRUMENTS (note 5)	11,848,956	11,860,828
CONTRIBUTED SURPLUS (note 6)	819,553	703,811
DEFICIT	(1,976,666)	(2,752,406)
TOTAL SHAREHOLDERS' EQUITY	10,691,843	9,812,233
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 21,106,949	\$ 18,854,416

ON BEHALF OF THE BOARD OF DIRECTORS:



John Brodie, Director



David Scott, Director

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

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

	THREE MONTHS ENDED MARCH 31, 2007	THREE MONTHS ENDED MARCH, 31 2006	NINE MONTHS ENDED MARCH 31, 2007	NINE MONTHS ENDED MARCH 31, 2006
SALES (note 7)	\$ 10,585,366	\$ 9,195,213	\$ 28,016,350	\$ 22,817,487
COST OF SALES				
Amortization of property, plant and equipment	60,673	48,596	139,417	150,872
Materials, labour and manufacturing overhead	7,953,783	6,714,632	21,055,828	17,035,211
Total Cost of Sales	8,014,456	6,763,228	21,195,245	17,186,083
GROSS MARGIN	2,570,910	2,431,985	6,821,105	5,631,404
EXPENSES				
Sales and marketing	579,518	434,110	1,552,140	1,626,729
Research and development	58,981	113,595	194,249	352,940
General and administration	973,850	707,512	2,640,151	1,962,715
Interest on operating line	-	-	-	4,781
Foreign exchange (gains) losses	7,111	(6,636)	41,545	(74,502)
Amortization of property, plant and equipment	66,109	74,443	195,348	216,379
Amortization of intangible and other assets	61,205	73,754	196,141	171,145
Total Expenses	1,746,774	1,396,778	4,819,574	4,260,187
INCOME BEFORE OTHER ITEMS	824,136	1,035,207	2,001,531	1,371,217
OTHER ITEMS				
Periodic interest on long-term debt	70,687	112,330	219,853	338,490
Bonus interest on subordinated debenture	-	33,000	-	87,000
Restructuring expenses (note 8)	-	124,515	-	673,515
TOTAL OTHER ITEMS	70,687	269,845	219,853	1,099,005
NET INCOME BEFORE INCOME TAXES	753,449	765,362	1,781,678	272,212
FUTURE INCOME TAXES (note 4)	398,124	23,180	1,005,938	36,467
NET INCOME	355,325	742,182	775,740	235,745
DEFICIT, BEGINNING	(2,331,991)	(4,236,354)	(2,752,406)	(3,729,917)
DEFICIT, ENDING	\$ (1,976,666)	\$ (3,494,172)	\$ (1,976,666)	\$ (3,494,172)
BASIC AND FULLY DILUTED EARNINGS PER SHARE (note 5)	\$ 0.018	\$ 0.039	\$ 0.040	\$ 0.012
WEIGHTED AVERAGE BASIC COMMON SHARES ISSUED AND OUTSTANDING	19,274,478	19,082,805	19,193,548	19,010,683

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

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

	THREE MONTHS ENDED MARCH 31, 2007	THREE MONTHS ENDED MARCH 31, 2006	NINE MONTHS ENDED MARCH 31, 2007	NINE MONTHS ENDED MARCH 31, 2006
OPERATING ACTIVITIES				
Cash receipts from customers	\$ 9,742,517	\$ 9,126,815	\$ 25,926,337	\$ 23,076,593
Cash paid to suppliers and employees	(9,645,416)	(7,055,431)	(25,393,720)	(20,333,768)
Interest paid	(70,687)	(107,549)	(219,853)	(338,490)
CASH FLOW FROM OPERATING ACTIVITIES	26,414	1,963,835	312,764	2,404,335
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(47,921)	(41,444)	(215,949)	(129,446)
Investment in new product development	(32,417)	(43,425)	(138,633)	(81,564)
Investment in intangible assets	(3,831)	(12,461)	(52,940)	(14,793)
CASH FLOW USED BY INVESTING ACTIVITIES	(84,169)	(97,330)	(407,522)	(225,803)
FINANCING ACTIVITIES				
Repayment of long-term debt	(68,911)	(64,264)	(605,417)	(366,489)
Proceeds from the issue of equity instruments	15,055	42,208	45,071	150,622
CASH FLOW USED BY FINANCING ACTIVITIES	(53,856)	(22,056)	(560,346)	(215,867)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(111,611)	1,844,449	(655,104)	1,962,665
CASH AND CASH EQUIVALENTS, BEGINNING	1,589,393	829,778	2,132,886	711,562
CASH AND CASH EQUIVALENTS, ENDING	\$ 1,477,782	\$ 2,674,227	\$ 1,477,782	\$ 2,674,227

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

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTERS ENDED MARCH 31, 2007 AND MARCH 31, 2006

1. NATURE OF ACTIVITIES

Pacific Safety Products Inc.(PSP), incorporated under the Business Corporations Act, manufactures, distributes and sells a complete line of protective products and accessories for the defence and security market. Nexus Armour Inc. is a wholly owned subsidiary of PSP and is the parent company of Sentry Armor Systems Inc. (Sentry). Sentry was incorporated under the State of Delaware, USA and commenced operations in Dover, Tennessee on July 5, 2006.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and includes the accounts of Pacific Safety Products Inc. and its controlled companies, Nexus Armour Inc. and Sentry Armor Systems Inc. All intercompany transactions and balances are eliminated on consolidation.

These interim unaudited consolidated financial statements follow the same accounting policies and methods of application as the most recent audited consolidated financial statements dated June 30, 2006. The disclosures provided herein are incremental to those included in the audited annual consolidated financial statements. These interim unaudited consolidated financial statements should be read in conjunction with the Company's June 30, 2006 audited annual consolidated financial statements.

Use of Estimates

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

Foreign Currency Translation

The Company follows the temporal method of accounting for the translation of foreign currency amounts into Canadian dollars as Sentry Armor Systems Inc. is an integrated foreign operation. Under this method, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets are translated at the historical rate of exchange. Revenue and expenses are translated at the rates of exchange prevailing on the transaction date. Gains and losses on translation are reflected in the statement of operations.

Measurement Uncertainty

The amounts accrued to recognize investment tax credits and future income tax assets relating to unclaimed loss carry-forwards for income tax purposes are based on the Company's estimate that it will have sufficient future taxable income to utilize these losses. By their nature, these estimates are subject to measurement uncertainty and the effects of changes in estimates of judgments will be recorded in the period such changes are made.

Goodwill is reviewed by management annually or more frequently if an event or circumstance indicates that the asset might be impaired. When the carrying amount of a reporting unit exceeds its fair value an impairment is recognized in operations. Impairment is measured as the shortfall of the reporting unit's projected cashflows, after allocation to specific assets and liabilities, compared with the carrying amount of goodwill.

Management assesses intangible and other assets to ensure costs are recoverable through future sales. Any amount deemed to be unrecoverable is recognized in the current period. By their nature, these estimates are subject to measurement uncertainty and the effects of changes in estimates of judgments will be recorded in the period such changes are made.

The Company expenses warranty costs as they are incurred and management has determined that these costs are insignificant and have therefore not been provided for. This estimate is subject to measurement uncertainty and the effects of changes in estimates of judgments will be recorded in the period such changes are made.

3. INVENTORY	March 31, 2007	June 30, 2006
Raw materials	\$ 4,910,879	\$ 4,496,851
Work in process	312,200	237,312
Finished goods and samples	173,851	179,139
	\$ 5,396,930	\$ 4,913,302

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTERS ENDED MARCH 31, 2007 AND MARCH 31, 2006

4. FUTURE TAX ASSETS **March 31, 2007** **June 30, 2006**

Future Income Taxes Recoverable (Payable)

The major components of future income taxes recoverable (payable) are:

Recognition of tax losses available to reduce future income taxes payable	\$ 384,402	\$ 620,547
Less: allowance for tax losses available to reduce future income taxes payable	(384,402)	-
Less: taxes payable generated upon recognition of investment tax credits	-	(151,891)
Current future income taxes recoverable (payable)	-	468,656
Temporary difference relating to deductible financing costs	147,444	202,136
Temporary differences relating to property, plant and equipment	(109,003)	(116,347)
Temporary differences relating to goodwill, intangibles and other assets	(145,583)	(135,219)
Deductible SR&ED expenditures available for future years	317,197	317,197
Temporary differences relating to property, plant and equipment and intangible assets	210,055	267,767
Future income taxes recoverable	\$ 210,055	\$ 736,423

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

Combined tax rates	34%	36%
Income tax at the applicable tax rate	\$ 607,908	\$ 97,997
Change in valuation allowance for tax losses available to reduce future income taxes payable	384,402	(259,215)
Income tax effect of items not deductible for tax purposes	70,571	254,628
Income tax effect of share issue expenses	(56,943)	(56,943)
Actual income tax expense	\$ 1,005,938	\$ 36,467

At March 31, 2007, the Company had no Canadian non-capital tax loss carry forwards available. The Company has U.S. tax loss carry forwards of approximately \$976,199 USD which have not been recognized (June 30, 2006 - Canadian non-capital tax loss carry forwards of \$1.8 million of which \$468,656 were recognized, U.S. tax loss carry forwards were nil).

5. EQUITY INSTRUMENTS

Authorized

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

	Number of Shares	Amount
Beginning balance, June 30, 2006	19,155,491	\$ 11,860,828
Employee Ownership Plan (a)	47,762	20,705
Exercise of options (b)	15,000	4,350
Employee Ownership Plan (c)	22,465	20,016
Less: stock issue costs, net of tax effect	-	(56,943)
Balance, March 31, 2007	19,240,718	\$ 11,848,956

(a) In January 2006, the Company offered its sixth employee share ownership plan. Under the plan, employees were entitled to purchase up to 300,000 common shares at \$0.43 per share, which was the trading price at the time of offering. 41,504 shares were issued in January 2006 and 47,762 were issued in December 2006.

(b) During the first quarter, 15,000 common shares were issued through the exercise of employee stock options for proceeds of \$4,350.

(c) In January 2007, the Company offered its seventh employee share ownership plan. Under the plan, employees were entitled to purchase up to 300,000 common shares at \$0.90 per share, which was the trading price at the time of offering. 22,465 shares were issued in January 2007 and 31,620 are expected to be issued in December 2007.

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTERS ENDED MARCH 31, 2007 AND MARCH 31, 2006

5. EQUITY INSTRUMENTS (continued)

Stock Options

The Company has a stock option plan that provides options to purchase common shares of the Company for its management, executive officers and members of the Board of Directors. These options expire five years after the issue date or, in the event the employee's service ceases, at a date determined by the Board of Directors. Board members' options expire 90 days after termination or resignation. The exercise price for these stock options is set at the average closing price over the previous 20 day trading period. Vesting periods are determined by the Board of Directors upon issuance. At March 31, 2007, the Company had 1,172,430 stock options outstanding with exercise prices ranging from \$0.27 to \$1.95. Of the options outstanding at March 31, 2007, 150,000 do not fully vest until one year after the grant date and/or specific conditions have been satisfied.

	<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, 2006	101,900	489,500	342,500	933,900	\$ 0.64
Issued	27,000	100,000	140,000	267,000	\$ 0.91
Expired	(10,800)	(2,670)	-	(13,470)	\$ 0.68
Exercised	-	-	(15,000)	(15,000)	\$ 0.29
Balance, March 31, 2007	118,100	586,830	467,500	1,172,430	\$ 0.71
Weighted Average Exercise Price	\$ 0.70	\$ 0.62	\$ 0.82	\$ 0.71	
Weighted Average Remaining Contractual Life (years)	-	3.98	2.48	3.31	2.96
Total Stock Option Pool Authorized					2,500,000
Total Stock Option Pool Remaining					762,070

The fair value of stock options issued in previous years was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield (nil), expected volatility ranged from (0.71 to 0.74), risk-free interest rate ranged from (2.3% to 3.85%), and weighted average life of five years. The fair value of stock options issued in Quarter One was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield (nil), expected volatility (0.65), risk-free interest rate (4.0%), and weighted average life of five years with a weighted average fair value of \$0.53 per stock option. The fair value of stock options issued in Quarter Two was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield (nil), expected volatility (0.63), risk-free rate (4.0%), and a weighted average life of five years with a fair value of \$0.61 per stock option. There were no options issued in Quarter Three.

The following table summarizes information regarding the Company's outstanding stock options at March 31, 2007:

<i>Options Outstanding</i>			<i>Options Exercisable</i>		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.27 to \$0.39	400,000	1.16	\$ 0.34	400,000	\$ 0.34
\$0.46 to \$0.68	362,430	3.86	\$ 0.62	362,430	\$ 0.62
\$0.71 to \$1.06	290,000	3.44	\$ 0.91	140,000	\$ 0.93
\$1.43 to \$1.95	120,000	2.88	\$ 1.71	120,000	\$ 1.71
	1,172,430		\$ 0.71	1,022,430	\$ 0.68

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTERS ENDED MARCH 31, 2007 AND MARCH 31, 2006

5. EQUITY INSTRUMENTS (continued)

Equity Instruments Outstanding	March 31, 2007	June 30, 2006
Common shares, issued and outstanding	19,240,718	19,155,491
Stock options	1,172,430	933,900
Employee Share Ownership Plan	31,620	49,087
Fully diluted equity instruments	20,444,768	20,138,478

6. CONTRIBUTED SURPLUS

Balance, June 30, 2006	\$ 703,811
Stock option compensation expense (a)	115,742
Balance, March 31, 2007	\$ 819,553

(a) The fair value of stock options was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield (nil), expected volatility range (0.63 to 0.65), risk-free rate (4.0%) and weighted average life of five years with a weighted average fair value of \$0.56 per stock option.

7. SEGMENTED INFORMATION

	Pacific Safety Products Inc. (Canada)	Sentry Armor Systems Inc.	Consolidated Total
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For the Nine Months Ended March 31, 2007

Revenue	\$ 27,600,718	\$ 1,124,431	\$ 28,725,149
Elimination of inter-segment revenue	(708,799)	-	(708,799)
Total revenue	26,891,919	1,124,431	28,016,350
Gross margin	7,205,374	(384,269)	6,821,105
Expenses	3,960,159	859,415	4,819,574
Interest	219,853	-	219,853
Net income before income taxes	\$ 3,025,362	\$ (1,243,684)	\$ 1,781,678

Sentry Armor Systems Inc. began operations in July 2006 therefore prior period comparatives are not available as Sentry was not in operation at March 31, 2006. Net income from operations ending March 31, 2007 of Pacific Safety Products Inc. are comparable to the net earnings from operations reported in the March 31, 2006 Quarter Three financial statements.

	Pacific Safety Products Inc. (Canada)	Sentry Armor Systems Inc.	Total
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As at March 31, 2007

Property, Plant and Equipment, Goodwill and Intangible Assets

Property, plant and equipment	\$ 2,714,512	\$ 282,930	\$ 2,997,442
Intangible and other assets	121,879	91,384	213,263
Goodwill	2,834,353	-	2,834,353
	\$ 5,670,744	\$ 374,314	\$ 6,045,058

As at June 30, 2006

Property, Plant and Equipment, Goodwill and Intangible Assets

Property, plant and equipment	\$ 2,944,741	\$ 170,290	\$ 3,115,031
Intangible and other assets	242,173	69,471	311,644
Goodwill	2,834,353	-	2,834,353
	\$ 6,021,267	\$ 239,761	\$ 6,261,028

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTERS ENDED MARCH 31, 2007 AND MARCH 31, 2006

7. SEGMENTED INFORMATION (continued)

	<i>Domestic</i>	<i>United States</i>	<i>International</i>	<i>Total</i>
<i>Fiscal 2007 Quarter Three Sales</i>	\$ 9,825,166	\$ 640,463	\$ 119,737	\$ 10,585,366
<i>Fiscal 2006 Quarter Three Sales</i>	\$ 8,844,155	\$ 300,173	\$ 50,885	\$ 9,195,213

The Company operates primarily in the protective products and accessories manufacturing and distribution industry. Its current operations are based in British Columbia and Ontario, Canada and in Tennessee, USA. Included in Q3 revenue were sales of \$6.75 million to the Canadian Federal Government (2006 Q3 - \$6.17 million) which represents 63.8% (2006 Q3 - 67%) of total sales. Other than the Canadian Federal Government, the Company had no other significant sales (over 10% of revenue) to any one customer.

8. RESTRUCTURING EXPENSES

On August 31, 2005 the Company announced a significant restructuring of the organization that included the resignation of several members of its Executive Leadership Team and the closure of its Brampton Facility. These costs were specifically associated with the exit and disposal activities of the reorganization of the Company. The total restructuring expenses incurred in the first three quarters of fiscal 2006 comprised:

Severance and recruitment costs	\$ 530,062
Facility closure and other restructuring costs	143,453
Balance, March 31, 2006	\$ 673,515

9. RELATED PARTY TRANSACTIONS

During the third quarter the Company paid \$43,731 (March 31, 2006 - nil) in professional fees to a member of the Board of Directors and to an organization related to another member of the Board of Directors. These fees were charged to general administration expense. These transactions were all in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value.

10. FINANCIAL INSTRUMENTS

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

- (a) At March 31, 2007, the Company had \$1,786,000 (June 30, 2006 - \$1,948,000) of long-term floating rate debt.
- (b) At March 31, 2007 the Company had \$4,740,922 (June 30, 2006 - \$1,894,461) in accounts receivable due from the Canadian Federal government.
- (c) At March 31, 2007 the Company had \$1,250,639 (June 30, 2006 - \$2,390,830) cash on deposit with a Canadian Chartered Bank and \$139,926 cash on deposit with a U.S. Bank (June 30, 2006 - nil).
- (d) At March 31, 2007 the Company held a secured letter of credit with its financial institution in the amount of US\$750,000.
- (e) Foreign currency exchange rate risk management - a portion of the Company's sales are denominated in foreign currencies and, accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures. The effect of a 1% change in foreign currency exchange rates would have a nominal effect on the financial results of the Company.

11. SUBSEQUENT EVENTS

On April 5, 2007 the Company's U.S. subsidiary, Sentry Armor Systems Inc., entered into an agreement to acquire the assets of Gator Hawk Armor Inc, a U.S. based soft body armor business located in Ventura, California. The aggregate purchase price of the acquisition is \$3,465,000 USD in cash and \$385,000 USD in common shares of the Company and an amount up to \$300,000 USD based on certain revenue targets of the Gator Hawk product line being achieved in fiscal 2008. The acquisition closed on April 30, 2007 and 429,621 shares were issued from treasury.

On April 30, 2007, 4,500,000 Subscription Receipts held by Acumen Capital Partners Inc were exchanged for 4,500,000 common shares of the Company at \$1.00 per share.

**PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTERS ENDED MARCH 31, 2007 AND MARCH 31, 2006**

In April 2007, the Company entered into a \$3.5 million USD option contract to hedge against fluctuations in the value of the US dollar.

Subsequent to quarter end the Company entered into an sale/leaseback agreement to sell its manufacturing facility in Kelowna, BC for \$3 million, and lease a portion of the facility back. The Company has entered into a 10 year lease for 15,000 square feet.



Pacific Safety Products Inc.

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