



Investor Report

Fiscal 2009, Quarter Three

Interim Results for the three and nine month period ended
March 31, 2009 with Comparative Results for 2008

MANAGEMENT DISCUSSION AND ANALYSIS

Mission

...we bring everyday heroes home safely.™

The following discussion is intended to assist readers in better understanding and evaluating Pacific Safety Products ("PSP" or the "Company") history, business environment, strategies, performance and risk factors as well as the financial condition and operations for the three and nine month period ended March 31, 2009. It is recommended that the information provided in this report be read in conjunction with PSP's consolidated financial statements and notes for the twelve month period ended June 30, 2008, message to shareholders and other management discussions included in the Company's annual report. The information in this report includes information available to May 21, 2009, and includes forward-looking statements based on current expectations and is subject to risks and uncertainties. Many internal and external factors may cause actual results to differ materially. Unless otherwise indicated all dollar amounts shown are expressed in Canadian dollars.

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

HIGHLIGHTS OF THE QUARTER

- The Company increased net income during the quarter by almost 40% as compared to the same period of the prior year.
- U.S. sales during the quarter more than doubled as compared the same period of the prior year.
- The Company generated almost \$1.0 million of Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") during the quarter, an increase of 11% as compared to the same period of the prior year.
- Operational improvements have increased gross margins by more than 1% on a year to date basis as compared to the same period of the prior year.
- Selling, general and administrative expenses decreased by more than 25% during the quarter as compared to the same period of the prior year.
- The Company entered into a contract with the National Research Council Canada with a Contribution Agreement valued at up to \$0.5 million to begin development of a next generation Integrated Helmet for soldier modernization

OVERVIEW OF THE BUSINESS

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

PSP has a significant recurring revenue stream from its Canadian customers in the form of standing contracts with terms of up to five years. These contracts are with Federal, Provincial and Municipal organizations and agencies. The Company also pursues long-term defence contracts. PSP has been successful in supplying the Canadian Military with Fragmentation Protection products and Chemical and Biological Protection suits. The Company's U.S. business is primarily supplying State, County and Municipal Law Enforcement agencies with soft body armour. These products are sold through a network of third party distributors.

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

PSP has manufacturing operations in Arrprior, Ontario and Dover, Tennessee, a distribution centre in Bedford, Nova Scotia and its head office is located in Ottawa, Ontario. Its design and production facilities are all ISO9001 compliant. Founded in 1984, PSP has grown to currently include more than 240 employees at its Canadian and U.S. facilities.

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

Market Conditions

The market for Law Enforcement and Security products in Canada remains strong despite the current economic climate. This market accounts for approximately two thirds of the Company's business volume and normal buying patterns by major customers follows a seasonal cycle.

The defence markets in both Canada and the U.S. typically consist of large volume multi-year production runs followed by routine replenishment cycles as in-service products are replaced. PSP's defence products in Canada currently accounts for approximately 10% to 15% of annual revenue. PSP also pursues funded Research and Development opportunities in this market. PSP has also entered the U.S. defence market with an enhanced helmet liner product. The Company anticipates growth in the defence market over the next five years assuming that it is able to finance the required product development.

The Company's U.S. market for soft body armour to Law Enforcement Agencies is being impacted by the economic recession, however sales to international customers has to date offset this trend. Currently the U.S. market accounts for approximately 30% of total revenue, up from 13% in FY08 and 2% in FY07.

CONSOLIDATED RESULTS OF OPERATIONS

<i>SUMMARY OF OPERATIONS</i>	<i>THREE MONTHS ENDED MARCH 31, 2009</i>	<i>THREE MONTHS ENDED MARCH 31, 2008</i>	<i>NINE MONTHS ENDED MARCH 31, 2009</i>	<i>NINE MONTHS ENDED MARCH 31, 2008</i>
SALES	\$ 10,548,654	\$ 10,639,392	\$ 27,847,812	\$ 24,587,474
COST OF SALES	7,933,611	7,679,073	20,949,640	18,792,900
GROSS MARGIN	2,615,043	2,960,319	6,898,172	5,794,574
EXPENSES	1,980,872	2,692,707	6,403,703	6,882,557
INCOME (LOSS) BEFORE OTHER ITEMS AND TAXES	634,171	267,612	494,469	(1,087,983)
OTHER ITEMS	-	(239,371)	152,150	265,931
INCOME (LOSS) BEFORE INCOME TAXES	634,171	506,983	342,319	(1,353,914)
INCOME TAX EXPENSE (RECOVERY)	216,720	207,037	(124,647)	(408,333)
INCOME (LOSS)	\$ 417,451	\$ 299,946	\$ 466,966	\$ (945,581)
BASIC AND FULLY DILUTED INCOME (LOSS) PER SHARE	\$ 0.016	\$ 0.012	\$ 0.018	\$ (0.038)
WEIGHTED AVERAGE BASIC COMMON SHARES ISSUED AND OUTSTANDING	25,492,400	25,464,207	25,475,810	24,871,698

RESULTS OF OPERATIONS

Sales

Sales for the three month period ending March 31, 2009 were \$10.6 million, a decrease of \$0.1 million or 1% as compared to the same period of the prior year. The decrease is primarily attributed to the reduction in sales to the Department of National Defense ("DND"), offset by increased sales in the U.S. and in the Canadian Law Enforcement market. Sales generated from Canadian operations were \$7.3 million, a decrease of \$1.7 million or 19% over the same period of the prior year. This decrease is attributed to reduced sales to DND primarily as a result of the completion of the Chemical and Biological Protection Suit contract during the current year, partially offset by increased sales in the Canadian Law Enforcement market. The Company expects a further decline in Canadian revenues in future quarters as the Fragmentation Protection Vest Contract with DND is expected to be completed by June 30, 2009. Sales generated from U.S. operations were \$3.3 million, an increase of \$1.6 million or 90% as compared to the same period of the prior year. This increase is attributed to the expansion of distribution channels into international markets and favourable foreign exchange on the translation of U.S. dollar sales.

Sales for the nine month period ending March 31, 2009 were \$27.8 million, an increase of \$3.3 million or 13% as compared to the same period of the prior year. The increase is primarily attributed to increased sales from U.S. operations partially offset by a decline in sales from Canadian operations. Sales generated from U.S. operations were \$8.6 million, an increase of \$4.3 million or 100% over the same period of the prior year. This increase is attributed to the expansion of third party distribution channels into domestic U.S. and international markets. Sales generated from Canadian operations were \$19.2 million, a decrease of \$1.1 million or 5% over the same period of the prior year. The decrease is attributed to reduced sales to DND primarily as a result of the completion of the Chemical and Biological Protection Suit contract during the current year, partially offset by increased sales due to the acquisition of APS during the second quarter of the prior year and increased sales related to significant contract wins in the Canadian Law Enforcement market.

Gross Margin

For the three month period ending March 31, 2009, gross margin as a percentage of sales decreased by 3.0 percentage points to 24.8% as compared to 27.8% in the same quarter of the prior year. The decrease is attributed to higher margins on large government contracts in the prior year, partially offset by improved gross margin in the current year from U.S. operations primarily due to improved manufacturing efficiency and better overhead absorption related to increased sales volume.

For the nine month period ending March 31, 2009, gross margin as a percentage of sales increased by 1.2 percentage points to 24.8% as compared to 23.6% during the same period of the prior year. The increase is attributed to improved gross margins in the current year from U.S. operations primarily due to improved manufacturing efficiency and better overhead absorption related to increased sales volume. Gross margin also improved in the Canadian Law Enforcement market due to a shift in product mix to higher margin ballistic products. This favourable variance was partially offset by reduced gross margin in Canadian operations due to reduced sales volume from large DND contracts and unfavourable foreign exchange related to the devaluation of the Canadian dollar relative to the U.S. dollar during the current year.

Expenses

For the three month period ending March 31, 2009, expenses were \$2.0 million, a decrease of \$0.7 million or 26.2% as compared to the same period of the prior year. The decrease is primarily due to savings related to the Company's integration and restructuring activities during the second quarter of the current year. The Company continues to monitor its expense base in light of the current global economic slowdown and will attempt to further reduce costs should it be deemed necessary.

For the nine month period ending March 31, 2009, expenses were \$6.4 million, a decrease of \$0.5 million or 7.0% as compared to the same period of the prior year. The decrease is primarily due to savings related to the Company's integration and restructuring activities during the second quarter of the current year, partially offset by increased expenses related to the acquisition of APS during the second quarter of the prior year.

Research and development ("R&D") expenditures for the three month period ending March 31, 2009 were \$0.1 million compared to \$0.3 million during the same period of the prior year. Expenses included in this category include the costs related to ballistic research materials, testing, product designs, patterns, labour and overhead. During the quarter, management deferred \$0.2 million (Q3 2008 \$0.1 million) in R&D costs relating to new product development projects that have known markets and are expected to come into commercial production at a future date. The increase in deferred R&D is primarily related to the certification of certain product lines as required by the U.S. Department of Justice and the development of products related to the company's next generation Integrated Helmet Program.

Research and development expenditures for the nine month period ending March 31, 2009 were \$0.2 million compared to \$0.4 million during the same period of the prior year. The decrease is primarily related to a shift in resources to development work related to the certification of certain product lines as required by the U.S. department of justice and the development of products related to the company's next generation Integrated Helmet Program. During the previous nine months, management deferred \$0.4 million of new product development costs as compared to \$0.3 million during the same period of the prior year.

Amortization of property, plant and equipment was \$0.05 million for the three month period ending March 31, 2009 compared to \$0.05 million during the same period of the prior year. Amortization of other assets was \$0.2 million compared to \$0.1 million during the same period of the prior year. The increase in amortization of other assets is primarily attributed to the commencement of amortization of new product development projects.

Amortization of property, plant and equipment was \$0.1 million for the nine month period ending March 31, 2009 compared to \$0.1 million during the same period of the prior year. Amortization of other assets was \$0.5 million for the nine month period ending March 31, 2009 compared to \$0.5 million during the same period of the prior year.

Interest on the operating line for the three month period ending March 31, 2009 was \$0.03 million compared to \$0.06 million during the same period of the prior year. Interest on long term debt for the three month period ending March 31, 2009 was \$0.02 million compared to \$0.05 million during the same period of the prior year. The decrease in interest expense is primarily attributed to the reduction in variable interest rates over the same period of the prior year.

Interest on the operating line for the nine month period ending March 31, 2009 and March 31, 2008 was \$0.1 million. Interest on long term debt for the nine month period ending March 31, 2009 was \$0.06 million compared to \$0.1 million during the same period of the prior year. The decrease in interest expense is primarily related to the reduction in variable interest rates over the same period of the prior year.

Income Taxes

Income taxes were calculated at an effective rate of 33.5% for Canadian operations and 40.5% for U.S. operations for the three and nine month period ending March 31, 2009. Income tax expense for the current quarter varies from the amount that would be computed by applying the combined federal and provincial tax rate as a result of the tax effect of items not deductible for tax purposes.

Net Income

The Company reported net income of \$0.4 million for the three month period ending March 31, 2009 as compared to net income of \$0.3 million, inclusive of a \$0.2 million one-time gain on the disposition of the Kelowna, British Columbia facility, in the same period of the prior year. The increase in net income as compared to the prior year is primarily due to reduced operating costs partially offset by reduced gross margins. Basic and diluted income per share was \$0.02 for the quarter compared to \$0.01 during the same period of the prior year.

Net Income for the nine month period ending March 31, 2009 was \$0.5 million compared to a net loss of \$1.0 million, inclusive of a \$0.7 million one-time gain related to the disposition of the Kelowna, British Columbia facility and a \$1.0 million provision related to the relocation of the company from Kelowna, British Columbia to the Ottawa area of Ontario during the same period of the prior year. The improvement in net income is primarily due to increased revenues, improved gross margin and reduced operating expenses during the current year. Basic and diluted income per share was \$0.02 for the nine month period ending March 31, 2009 compared to a loss per share of \$0.04 during the same period of the prior year.

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

EBITDA for the quarter ended March 31, 2009 was \$1.0 million compared to \$0.9 million in the same period of the prior year. The calculation of EBITDA includes a one time gain of \$0.2 million on the disposition of the Kelowna, British Columbia facility in the prior year. The increase in EBITDA in the current quarter as compared to the same period of the prior year is primarily due to reduced operating expenses.

EBITDA for the nine month period ended March 31, 2009 was \$1.4 million compared to a loss of \$0.2 million during the same period of the prior year. The calculation of EBITDA includes a one-time gain of \$0.7 million on the disposition of the Kelowna, British Columbia facility and a one-time provision of approximately \$1.0 million related to the relocation of the Company from Kelowna, British Columbia to the Ottawa area of Ontario. The increase in EBITDA over the prior year is due to increased sales, improved gross margin and reduced operating expenses.

The following is a reconciliation of net income to EBITDA:

	<i>THREE MONTHS ENDED MARCH 31, 2009</i>	<i>THREE MONTHS ENDED MARCH 31, 2008</i>	<i>NINE MONTHS ENDED MARCH 31, 2009</i>	<i>NINE MONTHS ENDED MARCH 31, 2008</i>
Net income (loss)	\$417,451	\$299,946	\$466,966	\$(945,581)
Interest expense	50,768	108,507	165,983	186,829
Income tax (expense) recovery	216,720	207,037	(124,647)	(408,333)
Stock based compensation	10,238	19,948	102,443	132,930
Amortization	286,820	247,278	768,553	795,386
EBITDA	\$981,997	\$882,716	\$1,379,298	\$(238,769)

CONSOLIDATED QUARTERLY RESULTS

	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007
Sales	\$10,548,654	\$9,592,792	\$7,706,366	\$10,210,482	\$10,639,392	\$7,282,922	\$6,665,160	\$11,547,177
Net income (loss)	\$417,451	\$41,758	\$7,757	\$724,690	\$299,946	(\$1,364,483)	\$118,956	\$283,037
Basic and fully diluted earnings per share	\$0.02	\$-	\$-	\$0.02	\$0.01	(\$0.05)	\$0.01	\$0.01

In Q1 and Q2 of fiscal 2008 the Company recorded lower sales than in previous quarters due to delays in contract awards and an overall reduction in domestic sales due to fluctuations in government procurement patterns. The Company also recorded a one-time provision of approximately \$1.0 million in Q2 of fiscal 2008 related to the relocation of the Company from Kelowna, British Columbia to the Ottawa area of Ontario.

Cash Flow

Cash flow generated from operating activities for the three month period ended March 31, 2009 was \$0.2 million compared to \$0.5 million of cash used in operating activities in the same period of the prior year. The increase in cash flow from operating activities was primarily attributed to increased cash receipts related to increased sales and reduced operating expenses in the current year.

The Company used \$0.2 million of cash in investing activities for the three month period ending March 31, 2009, primarily related to new product development and investments in property plant and equipment, compared to \$0.2 million of cash used in investing activities in the same period of the prior year.

For the three month period ending March 31, 2009, \$0.09 million was used in financing activities as a result of the repayment of long term debt. The Company generated \$0.4 million of cash in the same period of the prior year due to proceeds from the operating line of credit.

Cash flow used in operating activities for the nine month period ended March 31, 2009 was \$1.1 million compared to \$1.8 million of cash used in operating activities in the same period of the prior year. The decrease of cash used in operating activities was due to increased cash receipts related to increased sales, reduced operating expenses and the completion of the relocation of the Company in the prior year.

The Company used \$0.8 million of cash in investing activities for the nine month period ended March 31, 2009 compared to \$1.8 million of cash used in investing activities during the same period of the prior year. The decrease in cash used in investing activities is primarily related to the acquisition of APS, partially offset by proceeds from the disposition on the Kelowna facility during the prior year.

The Company generated \$1.5 million of cash from financing activities for the nine month period ended March 31, 2009 compared to \$2.9 million of cash generated from financing activities during the same period of the prior year. The decrease in cash generated from financing activities is primarily related to the acquisition of APS and the repayment of long-term debt during the prior year.

CASH FLOW	THREE MONTHS ENDED MARCH 31, 2009	THREE MONTHS ENDED MARCH 31, 2008	NINE MONTHS ENDED MARCH 31, 2009	NINE MONTHS ENDED MARCH 31, 2008
Cash flow from (used for) continuing operations	\$150,982	\$(466,289)	\$(1,076,850)	\$(1,844,665)
Investing activities and capital expenditures	(229,541)	(217,055)	(844,305)	(1,765,968)
Financing activities	(85,147)	449,205	1,488,719	2,828,898
	\$(163,706)	\$(234,139)	\$(432,436)	\$(781,735)

LIQUIDITY AND CAPITAL RESOURCES

FINANCIAL POSITION

AS AT	MARCH 31, 2009	JUNE 30, 2008
Cash	\$224,821	\$ 657,257
Operating line of credit	\$(3,712,859)	\$(2,268,503)
Working capital	\$3,401,778	\$2,855,092
Long-term debt (long-term portion only)	\$1,212,680	\$875,580
Shareholders' equity	\$17,301,317	\$16,716,344

WORKING CAPITAL

At March 31, 2009, PSP's working capital was \$3.4 million compared to \$2.9 million at June 30, 2008, which is in line with management's expectations.

Accounts Receivable

Accounts receivable at March 31, 2009 increased \$0.4 million to \$6.2 million from \$5.8 million at June 30, 2008. The increase is primarily related to increased sales during the current quarter as compared to the fourth quarter of last year.

Inventory

Inventory at March 31, 2009 increased \$0.4 million to \$5.3 million compared to \$4.9 million at June 30, 2008. The increase in inventory is primarily due to an increase in inventory related to a significant contract win during the second quarter of the current year.

Bank Indebtedness

The Company has in place a \$5.0 million operating line of credit with a Canadian Chartered bank. At March 31, 2009 the Company had a balance of \$3.7 million outstanding on this line of credit.

Bank Covenants

At March 31, 2009 and June 30, 2008, the Company was compliant with all covenants set out by its lenders.

Investment Tax Credits Receivable (ITC)

The Company has accumulated investment tax credits receivable relating to scientific research and development expenses incurred in previous periods. These ITC's will be used to reduce taxes payable in future periods. At March 31, 2009 the Company reported ITC's of \$0.5 million (June 30, 2008 - \$0.1 million).

Future Income Taxes

At March 31, 2009, the Company had approximately \$0.9 million in Canadian non capital tax loss carry forwards available. The Company also had U.S. tax loss carry forwards of approximately \$2.4 million USD of which \$1.3 million have been recognized (June 30, 2008 Canadian non capital loss carry forwards were \$1.5 million and U.S. tax loss carry forwards were \$1.4 million USD.)

PROPERTY, PLANT AND EQUIPMENT AND OTHER ASSETS

During the quarter, the Company invested \$0.03 million in property, plant and equipment, and \$0.20 million in new product development costs and intangible assets as compared to \$0.07 and \$0.10 million, respectively during the same period of the prior year.

LONG-TERM DEBT

The Company has a \$1.4 million secured term loan with the Business Development Bank of Canada. The Company has commenced repayment of this loan.

EQUITY INSTRUMENTS AND CONTRIBUTED SURPLUS

At March 31, 2009, PSP's issued and outstanding shares totaled 25,492,400 compared to 25,467,694 at June 30, 2008. The Company's Contributed Surplus balance totaled \$1,229,086 at March 31, 2009, compared to \$1,126,643 at June 30, 2008.

OFF BALANCE SHEET CONTRACTS

The Company entered into an agreement with its bank to secure an irrevocable Standby Letter of Credit ("LOC") in the amount of \$440,000 USD (\$443,582 CAD) at December 31, 2007. The LOC is secured by the Company's operating line of credit. This LOC is issued in connection with the Horizon 1 protective coverall contract as a security for payment to a certain supplier of raw materials.

RELATED PARTY TRANSACTIONS

During the quarter the Company paid \$nil (Q3 fiscal 2008 - \$0.04 million) in consulting and professional fees to a company controlled by a significant shareholder and former director of the company. These fees were charged to general and administration expense. These transactions were all in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value.

FINANCIAL INSTRUMENTS

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, 2009, the Company had \$3.7 million (June 30, 2008 - \$2.3 million) outstanding on its operating line of credit with a Canadian Chartered Bank.
- (b) At March 31, 2009 the Company had \$2.1 million (June 30, 2008 - \$2.3 million) in accounts receivable due from the Canadian Federal government.
- (c) At March 31, 2009 the Company had \$0.2 million (June 30, 2008 - \$0.6 million) cash on deposit with a Canadian Chartered Bank and \$nil cash on deposit with a U.S. Bank (June 30, 2008 - \$0.1 million).
- (d) At March 31, 2009 the Company had \$1.4 million (June 30, 2008 - \$1.0 million) outstanding on its variable rate secured term loan facility with the Business Development Bank of Canada.

- (e) Foreign currency exchange rate risk management - a portion of the Company's sales and cost of goods sold 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 Company also uses foreign exchange currency forward contracts to fix the exchange rates on certain foreign currency exposures. At March 31, 2009 the company had foreign exchange currency forward contracts on hand with a notional value of \$650,000. The Company did not have any foreign exchange currency forward contracts on hand at June 30, 2008.

RISKS AND UNCERTAINTIES

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

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

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

Changing interest rates could have an effect on earnings. PSP's operating line, with a balance of \$3.7 million and the Company's secured loan facility with a balance of \$1.4 million at March 31, 2009, are variable rate loans. The effect of a 1% change in interest rates would have a nominal effect on the financial results of the company.

Foreign exchange rate fluctuations could lead to differences in the profitability of international contracts and orders. The majority of large international contracts are bid months in advance of when they are manufactured and shipped. These contracts are typically priced using United States dollars at an estimated future foreign exchange rate. If awarded to PSP, the receivables will generally be insured or secured by a letter of credit to ensure payment. If deemed necessary, management will enter into a foreign exchange 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 Company also uses foreign exchange currency forward contracts to fix the exchange rates on certain foreign currency exposures. The nature of PSP's business allows the Company to naturally hedge future normal foreign currency payments with future normal foreign currency collections.

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 information 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, results of cost reduction initiatives and financial results are forward looking statements. Some of the forward looking statements may be identified by words like "expects", "anticipates", "plans", "intends", "projects", "indicates", and similar expressions. These statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions. Many factors, including those discussed more fully elsewhere in this document and in documents filed with the British Columbia Securities Commission, the Alberta Securities Commission, the Ontario Securities Commission, the TSX Venture Exchange, as well as others, could cause results to differ materially from those anticipated. These factors include, but are not limited to the potential impact of the current economic downturn on the Company's business, the unpredictability of purchasing patterns by governmental agencies, the possibility of a deterioration in the Company's working capital position, the impact on the Company's liquidity if it were to go offside of the covenants in its debt facilities, the impact that changes in supplier payment terms or slow payment of accounts receivable could have on the Company's liquidity, the unavailability of or increase in price of external capital to finance the Company's research, development and growth initiatives, changes in the laws, regulations, policies and economic conditions, including inflation, interest and foreign currency exchange rates fluctuations of countries in which the Company does business; competitive pressures; successful integration of structural changes or downsizing initiatives, including restructuring plans, acquisitions, divestitures and alliances; cost of raw material, the uncertainty associated with the outcome of research and development of new products, including regulatory approval and market acceptance; and seasonality of sales in some products.

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

AS AT	MARCH 31, 2009 (UNAUDITED)	JUNE 30, 2008 (AUDITED)
ASSETS		
CURRENT ASSETS		
Cash	\$ 224,821	\$ 657,257
Accounts receivable (note 14)	6,201,849	5,816,983
Income taxes recoverable	14,431	31,512
Inventory (note 5)	5,279,431	4,880,894
Prepaid expenses and deposits	247,014	196,389
Investment tax credits receivable	-	85,365
Future income taxes recoverable (note 6)	231,396	224,500
Total Current Assets	12,198,942	11,892,900
INVESTMENT TAX CREDITS RECEIVABLE	504,494	-
LONG TERM TAXES RECEIVABLE	16,999	-
FUTURE INCOME TAXES RECOVERABLE (note 6)	19,317	241,173
PROPERTY, PLANT AND EQUIPMENT (note 7)	1,762,643	1,682,758
PRODUCT DEVELOPMENT COSTS (note 8)	1,180,458	896,612
INTANGIBLE ASSETS (note 9)	3,174,087	3,462,068
GOODWILL (note 9)	8,454,221	8,454,221
TOTAL ASSETS	\$ 27,311,161	\$ 26,629,732
LIABILITIES		
CURRENT LIABILITIES		
Operating line of credit (note 10)	3,712,859	2,268,503
Accounts payable and accrued liabilities	3,948,031	4,877,396
Deferred revenue	920,154	1,367,489
Current portion of long-term debt (note 11)	216,120	524,420
Total Current Liabilities	8,797,164	9,037,808
LONG-TERM DEBT (note 11)	1,212,680	875,580
TOTAL LIABILITIES	10,009,844	9,913,388
SHAREHOLDERS' EQUITY		
EQUITY INSTRUMENTS (note 12)	17,519,787	17,504,223
CONTRIBUTED SURPLUS (note 13)	1,229,086	1,126,643
DEFICIT	(1,447,556)	(1,914,522)
TOTAL SHAREHOLDERS' EQUITY	17,301,317	16,716,344
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 27,311,161	\$ 26,629,732

ON BEHALF OF THE BOARD OF DIRECTORS:



John Brodie, Director



Martin Carsky, Director

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

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

	THREE MONTHS ENDED MARCH 31, 2009	THREE MONTHS ENDED MARCH 31, 2008	NINE MONTHS ENDED MARCH 31, 2009	NINE MONTHS ENDED MARCH 31, 2008
SALES	\$ 10,548,654	\$ 10,639,392	\$ 27,847,812	\$ 24,587,474
COST OF SALES (note 5)	7,933,611	7,679,073	20,949,640	18,792,900
GROSS MARGIN	2,615,043	2,960,319	6,898,172	5,794,574
EXPENSES				
Sales and marketing	879,865	802,948	2,807,782	1,933,584
Research and development	50,461	256,301	181,644	385,666
General and administration	794,110	1,201,797	2,515,345	3,564,773
Interest on operating line	31,080	61,354	102,052	96,364
Interest on long-term debt	19,688	47,153	63,931	90,465
Foreign exchange losses (gains)	(18,693)	128,344	131,224	159,794
Amortization of property, plant and equipment	53,206	54,147	144,847	149,698
Amortization of intangible and other assets	171,155	140,663	456,878	502,213
Total Expenses	1,980,872	2,692,707	6,403,703	6,882,557
INCOME (LOSS) BEFORE OTHER ITEMS	634,171	267,612	494,469	(1,087,983)
OTHER ITEMS				
Restructuring/Relocation expense (note 17)	-	-	152,150	980,000
Gain on sale of building (note 7)	-	(239,371)	-	(714,069)
TOTAL OTHER ITEMS	-	(239,371)	152,150	265,931
INCOME (LOSS) BEFORE INCOME TAXES	634,171	506,983	342,319	(1,353,914)
INCOME TAXES				
Current expense (recovery)	4,147	50,124	(10,448)	268,786
Future expense (recovery)	212,573	156,913	(114,199)	(677,119)
Total Income Tax Expense (Recovery) (note 6)	216,720	207,037	(124,647)	(408,333)
NET INCOME (LOSS)	417,451	299,946	466,966	(945,581)
DEFICIT, BEGINNING	(1,865,007)	(2,939,158)	(1,914,522)	(1,693,631)
DEFICIT, ENDING	\$ (1,447,556)	\$ (2,639,212)	\$ (1,447,556)	\$ (2,639,212)
EARNINGS (LOSS) PER SHARE				
BASIC AND FULLY DILUTED (note 12)	\$ 0.016	\$ 0.012	\$ 0.018	\$ (0.038)
WEIGHTED AVERAGE COMMON SHARES ISSUED AND OUTSTANDING				
BASIC AND FULLY DILUTED	25,492,400	25,464,207	25,475,810	24,871,698

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, 2009	THREE MONTHS ENDED MARCH 31, 2008	NINE MONTHS ENDED MARCH 31, 2009	NINE MONTHS ENDED MARCH 31, 2008
OPERATING ACTIVITIES				
Cash receipts from customers	\$ 9,179,845	\$ 10,150,769	\$ 27,015,611	\$ 25,940,002
Cash paid to suppliers and employees	(8,965,279)	(10,508,551)	(27,847,038)	(27,384,735)
Interest paid	(50,768)	(108,507)	(165,983)	(186,829)
Other	(12,816)	-	(79,440)	(213,103)
CASH FLOW FROM (USED) IN OPERATING ACTIVITIES	150,982	(466,289)	(1,076,850)	(1,844,665)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(34,101)	(73,018)	(391,562)	(294,988)
Disposal of assets	-	-	-	2,941,943
Investment in new product development	(193,654)	(112,265)	(441,975)	(342,946)
Investment in intangible assets	(1,786)	(15,264)	(10,768)	(109,346)
Acquisition of APS Distributors Ltd., net of cash	-	(16,508)	-	(3,960,631)
CASH FLOW USED IN INVESTING ACTIVITIES	(229,541)	(217,055)	(844,305)	(1,765,968)
FINANCING ACTIVITIES				
Proceeds from the issue of long-term debt	-	-	100,000	1,000,000
Repayment of long-term debt	(53,580)	-	(71,200)	(2,132,000)
Proceeds from (repayment of) operating line of credit	(31,567)	429,687	1,444,355	3,812,870
Proceeds from the issue of equity instruments	-	20,268	15,564	148,778
Costs related to the issue of equity instruments	-	(750)	-	(750)
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES	(85,147)	449,205	1,488,719	2,828,898
DECREASE IN CASH CASH , BEGINNING	(163,706) 388,527	(234,139) 340,548	(432,436) 657,257	(781,735) 888,144
CASH, ENDING	\$ 224,821	\$ 106,409	\$ 224,821	\$ 106,409

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

1. NATURE OF ACTIVITIES

Pacific Safety Products Inc. ("PSP"), incorporated under the British Columbia Business Corporations Act, manufactures, distributes and sells a complete line of protective products and accessories for the defence and security market. Nexus Armour Inc. is a wholly owned subsidiary of PSP and is the parent company of Sentry Armor Systems Inc. ("Sentry"). Sentry was incorporated in the State of Delaware, USA and commenced operations in Dover, Tennessee on July 5, 2006. APS Distributors Ltd. ("APS") is a division of PSP located in Bedford, Nova Scotia and was acquired by PSP on October 31, 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and includes the accounts of Pacific Safety Products Inc. and its wholly owned 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, 2008 except as disclosed in note 3. The disclosures provided herein are incremental to those included in the audited annual consolidated financial statements. These interim unaudited consolidated financial statements should be read in conjunction with the Company's June 30, 2008 audited annual consolidated financial statements.

Use of Estimates

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

Goodwill and Intangible Assets

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

Patents, trademarks and deferred financing costs are recorded at out of pocket cost. Customer relationships, tradenames and non-compete agreements are recorded at cost which, for business acquisitions, represents the fair market value at the date of the acquisition. Management assesses intangible assets to ensure costs are recoverable through future sales. Any amount deemed to be unrecoverable is expensed. Amortization of intangibles is calculated using the following methods and annual rates:

Deferred organization costs	straight-line over 5 years
Patents and trademarks	straight-line over 5 years
Customer relationships	straight-line over 10 to 15 years
Tradenames	straight-line over 15 years
Non-compete agreements	straight-line over 3 years

Measurement Uncertainty

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

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

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

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company previously provided for certain warranty costs arising from the purchase of the net assets of Gator Hawk Armor Inc. ("GH"). Effective December 15, 2008, the Company reached an agreement with GH whereby the Company paid GH, \$70,000 USD to settle and resolve all previous and future claims related to the replacement of GH products.

3. CHANGE IN ACCOUNTING POLICY

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

Section 3031, "Inventories"

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

Section 3862, "Financial Instruments - Disclosures" and Section 3863, "Financial Instruments - Presentation"

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

Section 1535, "Capital Disclosures"

The new standard requires the Company to disclose its objectives, policies and processes for managing its capital structure. This new accounting standard is disclosed in note 15.

4. RECENT ACCOUNTING PRONOUNCEMENTS

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

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

5. INVENTORY	MARCH 31, 2009	JUNE 30, 2008
Raw materials	\$ 3,952,716	\$ 3,714,900
Work in process	104,889	42,396
Finished goods and samples	1,221,826	1,123,598
	\$ 5,279,431	\$ 4,880,894

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2009 AND 2008

5. INVENTORY (continued)

The following table sets forth details of Cost of Sales

For the nine months ended March 31st	2009	2008
Raw materials and consumables used	\$ 15,189,980	\$ 13,486,789
Labour costs	3,395,644	3,514,806
Other costs	2,364,016	1,791,305
	\$ 20,949,640	\$ 18,792,900

6. FUTURE TAX ASSETS

MARCH 31, 2009 JUNE 30, 2008

Future Income Taxes Recoverable (Payable)

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

Tax losses available to reduce future income taxes payable	\$ 295,000	\$ 295,000
Allowance for tax losses available to reduce future income taxes payable	(63,604)	(70,500)
Current future income taxes recoverable	231,396	224,500
Temporary difference relating to deductible financing costs	86,443	144,204
Temporary differences relating to property, plant and equipment	(277,442)	(128,429)
Temporary differences relating to goodwill, intangibles and other assets	(602,110)	(498,809)
Deductible SR&ED expenditures available for future years	64,802	174,411
Deductible loss carryforwards available for future years	747,624	549,796
Non current future income taxes recoverable	\$ 19,317	\$ 241,173

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

For the nine months ended March 31	2009	2008
Combined tax rates	34%	34%
Income tax at the applicable tax rate	\$ 114,677	\$ (453,561)
Effect of tax rate difference between Canada and US on US operations	(28,805)	10,132
Valuation allowance for tax losses available to reduce future income taxes payable	(270,771)	48,491
Income tax effect of items not deductible for tax purposes	60,252	87,650
Income tax effect of items not taxable for tax purposes	-	(101,045)
Actual income tax expense	\$ (124,647)	\$ (408,333)

At March 31, 2009, the Company had approximately \$0.9 million in Canadian non-capital tax loss carry forwards available. The Company has U.S. tax loss carry forwards of approximately \$2.4 million USD of which \$1.3 million have been recognized (June 30, 2008 - Canadian non-capital tax loss carry forwards were \$1.5 million, U.S. tax loss carry forwards were \$1.4 million USD).

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2009 AND 2008

7. PROPERTY, PLANT AND EQUIPMENT **MARCH 31, 2009** **JUNE 30, 2008**

	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office equipment	\$ 300,912	\$ 144,289	\$ 156,623	\$ 273,535	\$ 118,048	\$ 155,487
Manufacturing equipment	2,251,650	1,291,443	960,207	2,030,072	1,141,401	888,671
Computer equipment	1,293,441	898,706	394,735	1,215,699	800,391	415,308
Test and design equipment	119,257	90,731	28,526	119,257	82,449	36,808
Leasehold improvements	280,829	58,277	222,552	224,258	37,774	186,484
	\$ 4,246,089	\$ 2,483,446	\$ 1,762,643	\$ 3,862,821	\$ 2,180,063	\$ 1,682,758

(a) Of the total amortization expense of \$115,665 for the three month period ended March 31, 2009 (March 31, 2008 - \$106,615) there is \$62,459 (March 31, 2008 - \$52,468) recorded in Cost of Sales.

(b) During the three month period ended March 31, 2008 the company recorded a gain of \$239,371 related to the disposition of it's building, excess land and parking lot in Kelowna, British Columbia.

8. PRODUCT DEVELOPMENT COSTS **MARCH 31, 2009** **JUNE 30, 2008**

	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Product development costs	\$ 1,548,058	\$ 367,600	\$ 1,180,458	\$ 1,113,366	\$ 216,754	\$ 896,612

(a) Product development costs includes \$599,527 (June 30, 2008 - \$245,462) of expenditures where amortization has not yet commenced.

9. GOODWILL AND INTANGIBLE ASSETS **MARCH 31, 2009** **JUNE 30, 2008**

	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Deferred organization costs	\$ 196,494	\$ 183,406	\$ 13,088	\$ 196,494	\$ 153,942	\$ 42,552
Patents	80,143	43,589	36,554	69,373	33,298	36,075
Trademarks	38,609	32,872	5,737	38,609	28,968	9,641
Deferred financing costs	111,879	111,879	-	111,879	111,826	53
Deferred contract costs	309,088	309,088	-	309,088	309,088	-
Customer relationships	3,179,127	592,017	2,587,110	3,179,129	407,325	2,771,804
Non-compete agreements	171,273	120,139	51,134	171,273	77,321	93,952
Tradenames	550,531	70,067	480,464	550,531	42,540	507,991
	4,637,144	1,463,057	3,174,087	4,626,376	1,164,308	3,462,068
Goodwill	8,895,830	441,609	8,454,221	8,895,830	441,609	8,454,221
	\$ 13,532,974	\$ 1,904,666	\$ 11,628,308	\$ 13,522,206	\$ 1,605,917	\$ 11,916,289

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2009 AND 2008

10. OPERATING LINE OF CREDIT

The Company has an agreement with a Canadian chartered bank to provide advances repayable on demand with interest payable monthly calculated at the bank prime lending plus 0.75% per annum. The loan is secured by a first priority general security agreement over accounts receivable, inventory and an assignment of insurance and is subject to a priority agreement between the Company and another financial institution. The maximum operating line is \$5.0 million and is subject to margin requirements and covenants set by the lenders. At March 31, 2009 the amount drawn on the line of credit was \$3,712,859 (June 30, 2008 - \$2,268,503).

11. LONG-TERM DEBT

MARCH 31, 2009 *JUNE 30, 2008*

Subordinated debenture with interest payable monthly calculated at 14% per annum. There is also a deferred interest component calculated at 4% per annum, due annually, with an option to defer the payment to the maturity of the loan. The balance of the loan was due in July 2008 and was subject to annual principal repayments, based on a calculation of free cash flow, due 120 days after the year end. Management paid the maximum payment of \$400,000 in fiscal 2008. The balance of the debenture was paid off in July 2008.

\$ - \$ 400,000

Secured loan with interest payable monthly calculated at the lender's floating base rate of 5.25% at March 31, 2009 plus a variance of 0.75% per annum on the principal outstanding. The principal is repayable by one installment of \$17,620 on December 23, 2008, 83 consecutive monthly payments of \$17,860 commencing January 23, 2009 with the final payment on November 23, 2015.

This loan is secured by a first security interest in all present and after-acquired personal property, subject only to a prior charge with respect to receivables and inventory in favour of the lender providing the line of credit.

1,428,800 1,000,000

Less current portion

1,428,800 1,400,000
(216,120) (524,420)

\$ 1,212,680 \$ 875,580

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

2009	\$ 216,120
2010	214,320
2011	214,320
2012	214,320
2013	214,320
Subsequent	355,400

\$ 1,428,800

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2009 AND 2008

12. EQUITY INSTRUMENTS

Authorized

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

As at	MARCH 31, 2009		JUNE 30, 2008	
	Number of Shares	Amount	Number of Shares	Amount
Beginning balance	25,467,694	\$ 17,504,223	24,197,964	\$ 16,356,195
Employee Ownership Plan (a)	-	-	20,995	18,513
Exercise of options (b)	-	-	238,500	123,817
Shares issued on purchase of APS (c)	-	-	1,000,000	1,000,000
Employee Ownership Plan (d)	24,706	15,564	10,235	6,448
Less: stock issue costs, net of tax effect	-	-	-	(750)
Balance,	25,492,400	\$ 17,519,787	25,467,694	\$ 17,504,223

- (a) In January 2007, the Company offered its seventh employee share ownership plan. Under the plan, employees were entitled to purchase up to 300,000 common shares at \$0.90 per share, which was the trading price at the time of offering. As at June 30, 2007, 26,090 shares have been issued and 20,995 were issued during the period ending December 2007.
- (b) During the year, the Company issued 238,500 common shares through the exercise of employee stock options for proceeds of \$123,817.
- (c) During the second quarter of fiscal 2008 the Company issued 1,000,000 common shares valued at \$1 as part of the purchase consideration for the purchase of APS Distributors Ltd.
- (d) In January 2008, the Company offered its eighth employee share ownership plan. Under the plan, employees were entitled to purchase up to 300,000 common shares at \$0.63 per share, which was the trading price at the time of offering. As at March 31, 2008, 10,235 shares have been issued and 24,706 were issued during the period ending December 2008.

Restricted Shares

Effective March 13, 2007, the Company entered into a Restricted Share Agreement with an Employee. Subject to the terms and conditions of this Agreement, the Company agreed to grant Restricted Shares to the Employee on each of November 26, 2007, 2008 and 2009. The Restricted Shares granted in any year vest one year after the grant date and will be issued to the Employee on the second anniversary of the vesting date. The Company granted 62,000 and 100,000 Restricted Shares on November 26, 2007 and November 26, 2008, respectively, under the terms of this agreement.

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, 2009, the Company had 1,198,830 stock options outstanding with exercise prices ranging from \$0.17 to \$1.95. Of the options outstanding at March 31, 2009, 120,000 do not fully vest until one year after the grant date and/or specific conditions have been satisfied.

	Senior Management	Executive Officers	Board of Directors	Total	Weighted Average Exercise Price
Balance, June 30, 2008	50,000	504,330	561,500	1,115,830	\$ 0.77
Issued	-	150,000	200,000	350,000	\$ 0.36
Forfeited	-	-	(15,000)	(15,000)	\$ 0.43
Expired	(4,000)	(188,000)	(60,000)	(252,000)	\$ 0.57
Balance, March 31, 2009	46,000	466,330	686,500	1,198,830	\$ 0.70

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2009 AND 2008

12. EQUITY INSTRUMENTS (continued)

	Senior Management	Executive Officers	Board of Directors	Total	Weighted Average Exercise Price
Weighted Average Exercise Price	\$ 0.76	\$ 0.61	\$ 0.75	\$ 0.70	
Weighted Average Remaining Contractual Life (years)	1.12	2.71	2.72	2.65	
Total Stock Option Pool Authorized					3,000,000
Total Stock Option Pool Remaining					662,070

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 during the current year was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield (nil), expected volatility ranging from (0.71 to 0.74), risk-free interest rate (4%), weighted average life of five years with a fair value ranging from (\$0.11 to \$0.28).

The following table summarizes information regarding the Company's outstanding stock options at March 31, 2009:

Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.17 to \$0.43	479,000	3.62	\$ 0.36	359,000	\$ 0.40
\$0.46 to \$0.68	219,830	1.16	\$ 0.62	219,830	\$ 0.62
\$0.71 to \$1.06	425,000	2.81	\$ 0.93	425,000	\$ 0.93
\$1.43 to \$1.95	75,000	0.43	\$ 1.77	75,000	\$ 1.77
	1,198,830		\$ 0.70	1,078,830	\$ 0.76

13. CONTRIBUTED SURPLUS

Balance, June 30, 2008	\$ 1,126,643
Stock option compensation expense (a)	110,943
Stock options forfeited	(8,500)
Balance, MARCH 31, 2009	\$ 1,229,086

(a) The fair value of stock options was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield (nil), expected volatility (0.74), risk-free rate (4.0%) and weighted average life of five years with a weighted average fair value of \$0.24 per stock option.

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2009 AND 2008

14. FINANCIAL INSTRUMENTS

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

Credit Risk

The Company sells its products to a variety of customers under various payment terms in the normal course of its operations and therefore is exposed to credit risk. The Company's exposure to credit risk is influenced by general economic conditions, the default risk of the industry and the relative concentration of business. A significant amount of the Company's trade receivables are derived from the Canadian federal government. At March 31, 2009, the Company had \$2.1 million (June 30, 2008 - \$2.3 million) in accounts receivable due from the Canadian Federal government.

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

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

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

As at	MARCH 31, 2009	JUNE 30, 2008
Not past due	\$ 4,389,809	\$ 3,813,714
Past due from more than one day but for no more than 30 days	1,485,215	1,513,255
Past due from more than 31 days but for no more than 60 days	66,954	261,429
Past due from more than 61 days	268,474	253,241
	6,210,452	5,841,639
Less: allowance for doubtful accounts	8,603	24,656
	\$ 6,201,849	\$ 5,816,983

Interest Rate Risk

The Company is exposed to interest rate risk with regard to a short-term variable rate operating line of credit and a long-term secured loan variable rate debt. For the three month period ended March 31, 2009, if interest rates on the operating line and long-term debt were to fluctuate by 1%, and all other variables were held constant, the impact on the Company's earnings before income taxes would be \$13,000.

Foreign Exchange Risk

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

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

For the three month period ended March 31, 2009, if the rate of exchange between the US and Canadian dollar were to fluctuate by 10%, and all other variables were held constant, the impact on the Company's earnings before income taxes would be \$140,000.

The Company's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on certain foreign currency exposures. The Company's objective is to manage and control exposures and secure the Company's profitability on existing contracts. The Company's policy is to hedge the majority of its foreign currency exposure. The Company does not utilize derivative financial instruments for trading or speculative purposes. The Company formally documents all relationships between derivative financial instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedged transactions.

14 FINANCIAL INSTRUMENTS (continued)

The Company did not designate its foreign exchange forward contracts as a hedge of underlying assets, liabilities, firm commitments or anticipated transactions in accordance with CICA Handbook Section 3865, "Hedges", and accordingly, did not use hedge accounting. As a result of this, the foreign exchange forward contracts are recorded on the consolidated balance sheet at fair value in accounts receivables when contracts are in a gain position and in accounts payable and accrued liabilities when the contracts are in a loss position. The fair value of the foreign exchange forward exchange contracts were recorded as a liability in accounts payable and accrued liabilities of \$6,397 at March 31, 2009 as per the following table. The Company did not have any forward exchange contracts outstanding as at March 31, 2008. Changes in fair value of these contracts are recognized as gains and losses in the consolidated statement of operations.

The forward foreign exchange contracts primarily require the Company to purchase US dollars at contractual rates. The Company had the following forward foreign exchange contracts at March 31, 2009:

<i>Type</i>	<i>Notional Amount</i>	<i>Currency</i>	<i>Maturity</i>	<i>Equivalent Canadian Dollars</i>	<i>Fair Value</i>
Buy	150,000	USD	May 2009	\$ 187,329	\$ (3,472)
Buy	500,000	USD	June 2009	624,425	(2,925)
					\$ (6,397)

Liquidity Risk

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

Fair Value of Financial Instruments

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

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

- (a) At March 31, 2009, the Company had \$3.7 million (June 30, 2008 - \$2.3 million) outstanding on its operating line of credit with a Canadian Chartered Bank.
- (b) At March 31, 2009 the Company had \$2.1 million (June 30, 2008 - \$2.3 million) in accounts receivable due from the Canadian Federal government.
- (c) At March 31, 2009 the Company had \$0.2 million (June 30, 2008 - \$0.6 million) cash on deposit with a Canadian Chartered Bank and \$nil cash on deposit with a U.S. Bank (June 30, 2008 - \$0.1 million).
- (d) At March 31, 2009 the Company had \$1.4 million (June 30, 2008 - \$1.0 million) outstanding on its variable rate secured term loan facility with the Business Development bank of Canada.
- (e) Foreign currency exchange rate risk management - a portion of the Company's sales are denominated in foreign currencies and, accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and receivables to offset foreign currency payables and planned expenditures. The company also uses foreign currency forward contracts to fix the exchange rates on certain foreign currency exposures.

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2009 AND 2008

15. CAPITAL DISCLOSURES

The Company's capital structure is comprised of Shareholders' equity and long-term debt. The Company's fundamental objective in managing capital is to ensure adequate liquidity and financial flexibility to meet its financial obligations and finance organic growth and acquisitions. The Company constantly monitors and assesses its financial performance in order to ensure that its net debt levels are prudent. When reviewing financing decisions, the Company considers the impact of debt and equity financing on its existing and future shareholders. The Company has established a committed revolving line of credit and long-term debt that provides liquidity. There were no changes in the Company's capital structure during the period.

The company is subject to externally imposed capital requirements, requiring the company to maintain a debt to tangible net worth ratio of less than 3.50 to 1.0. The debt to tangible net worth ratio at March 31, 2009 was 1.45 to 1.0 (June 30, 2008 - 1.51 to 1.0)

16. SEGMENTED INFORMATION	Canadian Operations	US Operations	Consolidated Total
<i>For the nine months ended March 31, 2009</i>			
Revenue	\$ 19,583,708	\$ 8,813,742	\$ 28,397,450
Elimination of inter-segment revenue	(71,851)	(477,787)	(549,638)
Total revenue	19,511,857	8,335,955	27,847,812
Gross margin	4,812,964	2,085,208	6,898,172
Expenses	4,380,469	1,421,509	5,801,978
Amortization	377,523	224,202	601,725
Other Items	152,150	-	152,150
Income taxes	25,880	(150,527)	(124,647)
Net income (loss) after taxes	\$ (123,058)	\$ 590,024	\$ 466,966

SEGMENTED INFORMATION	Canadian Operations	US Operations	Consolidated Total
<i>For the nine months ended March 31, 2008</i>			
Revenue	\$ 20,053,706	\$ 4,941,964	\$ 24,995,670
Elimination of inter-segment revenue	(250,565)	(157,631)	(408,196)
Total revenue	19,803,141	4,784,333	24,587,474
Gross margin	4,936,385	858,189	5,794,574
Expenses	5,490,481	740,165	6,230,646
Amortization	446,608	205,303	651,911
Other Items	265,931	-	265,931
Income taxes	(408,333)	-	(408,333)
Net income (loss) after taxes	\$ (858,302)	\$ (87,279)	\$ (945,581)

PACIFIC SAFETY PRODUCTS INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2009 AND 2008

16. SEGMENTED INFORMATION (continued)

SEGMENTED INFORMATION	Canadian Operations	US Operations	Total
AS AT MARCH 31, 2009			
<i>Assets</i>			
Current assets	\$ 9,656,282	\$ 2,542,660	\$ 12,198,942
Property, plant and equipment	1,148,663	613,980	1,762,643
Intangible, Other assets, Future Income Tax	2,817,978	2,077,377	4,895,355
Goodwill	5,459,017	2,995,204	8,454,221
	\$ 19,081,940	\$ 8,229,221	\$ 27,311,161
AS AT JUNE 30, 2008			
<i>Assets</i>			
Current assets	\$ 9,485,136	\$ 2,407,764	\$ 11,892,900
Property, plant and equipment	1,229,495	453,263	1,682,758
Intangible, Other assets, Future Income Tax	2,754,631	1,845,222	4,599,853
Goodwill	5,459,017	2,995,204	8,454,221
	\$ 18,928,279	\$ 7,701,453	\$ 26,629,732

Sales for the nine months ended March 31

	2009	2008
Domestic	\$ 20,288,422	\$ 20,137,084
United States	2,839,712	3,577,459
International	4,719,678	872,931
	\$ 27,847,812	\$ 24,587,474

The Company operates primarily in the defense and security markets. Its current operations are based in Ontario and Nova Scotia, Canada and in Tennessee, USA. Included in Q3 revenue were sales of \$2.2 million to the Canadian Federal Government (Q3 2008 - \$3.0 million) which represents 20.9% (Q3 2008 - 27.9%) of total sales. Other than the Canadian Federal Government, the Company had no other significant sales (over 10% of revenue) to any one customer.

The Company experiences sales cycles that can be dependent on the award of contracts by major police agencies and federal government departments. These cycles are, at times, unpredictable and may cause variations in revenue and profitability from quarter to quarter.

17. RELOCATION / RESTRUCTURING EXPENSES

During the quarter ended December 31, 2008, the Company announced a restructuring plan directed at reducing costs through the reduction of non-production staff and the integration of APS. The Company has recorded a provision of \$152,000 related to this activity.

During the second quarter of fiscal 2008, the Company announced it was moving its Corporate Head Office from Kelowna, BC to the Ottawa, ON region and to close the remaining manufacturing operation in Kelowna, BC. The Company recorded a provision of \$980,000 related to this decision.

18. CONTINGENCIES AND COMMITMENTS

The Company entered into an agreement with its bank to secure an irrevocable Standby Letter of Credit ("LOC") in the amount of \$440,000 USD (\$443,582 CAD) at December 31, 2007. The LOC is secured by the Company's operating line of credit. This LOC is issued in connection with the Horizon 1 protective coverall contract as a security for payment to a certain supplier of raw materials.

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

2009	\$564,349
2010	554,008
2011	542,815
2012	516,353
2013	225,271

Total	\$2,402,796
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19. RELATED PARTY TRANSACTIONS

During the quarter the Company paid \$nil (Q3 fiscal 2008 - \$43,319) in consulting and professional fees to a company controlled by a significant shareholder and former director of the company.. 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.

20. COMPARATIVE FIGURES

In certain instances the information presented for comparative purposes have been reclassified to conform to the financial statement presentation adopted for the current period.



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