



Press Release

23 June 2009

**Armor Designs, Inc.
Preliminary Results for year ended 31 December, 2008**

Armor Designs, Inc., (“Armor” or “the Company”), the developer of next generation composite armour, today announces its preliminary unaudited results for the year ended 31 December 2008.

Business Developments

- Ongoing transition from development company to commercial entity, with first international sales
- Introduction of a range of advanced personal protection body armour plates that are the lightest on the market
- Establishment of strategic alliance and creation of a focused R & D department “Scorpion Works” to prioritise and accelerate commercial exploitation of intellectual property (“IP”)
- Commissioning of flexible large scale production facility

Financial Developments

- Commencement of revenues in fourth quarter 2008
- Sales of US\$193,000 in first year of revenue generation
- Operating loss of US\$15.3m, (US\$10.9m after US\$4.4m of non-cash items) in 2008

Post Balance Sheet Date Events

- Additional equity funding in 2009 of US\$2.5m secured. Further fund-raising will be considered

Management and Board changes 2009

- Appointment of Philip A. Clement as Interim President & Chief Executive Officer
- Appointment of J. Craig Johnson as Acting Chief Financial Officer
- Appointment of William A Roper as non-executive director

Commenting on the results, Dr. James A. St. Ville, chairman of Armor Designs, Inc., said: “The Company is beginning to capitalise on its knowledge-based manufacturing expertise and the range of armour products developed in the last 12 months. We are quickly establishing a good reputation for providing leading edge armour solutions using our proprietary IP know-how. We are confident that our extensive pipeline of prototype applications spanning a range of military and civil markets and the recognition of revenue in the first quarter 2009 position the company for a year of development and growth. The company is well-placed to raise further equity funding as necessary, and this, coupled with the strengthening of the board, positions us to move the business forward this year.”

The Chairman's statement and the financial report, which are contained below and form part of this announcement, include further important information and disclosures and the announcement should be read in its entirety.

For further information:

Armor Designs, Inc.

Dr James St Ville

James.St.Ville@armordesigns.com

Tel: +1 602 275 4633

www.armordesigns.com

Nominated advisor:

Zimmerman Corporate Finance Limited

Thilo Hoffman

thiloh@zimmint.com

Tel: +44 (0) 20 7398 2900

www.zimmint.com

Media enquiries:

Brunswick Group LLP

Michael Harrison/ Chris Blundell / Camilla Gore

adi@brunswickgroup.com

Tel: +44 (0) 20 7404 5959

www.brunswickgroup.com

Chairman's Statement

The Board is pleased to report Armor Designs' first full-year results as a listed company. 2008 was a year of significant transition for the business, during which Armor continued to move from being a development company toward a fully established commercial entity. The year saw the commissioning of the Company's dedicated manufacturing facilities in Phoenix, Arizona, the development of Armor's first range of commercial body armour products and prototype development in other sectors. The Company also completed the first stage of its global distribution network; and recruited management and staff to move the business forward. As a result, the Company achieved its objectives of positioning the business for future commercial success, rather than near-term financial performance.

Strategic and Operational Progress

The year also saw significant development of the Company's knowledge based approach with the creation of a focused R & D department, "Scorpion Works", in the second quarter and the formation of strategic partnerships with ipCapital and Gauntlet Aviation to prioritise and accelerate the commercial exploitation of Armor's IP. Through Scorpion Works the Company developed a number of prototype products over the second half of the year, including body armour plates for personal protection, rotorcraft armour material and future helmet designs. The achievement of such a large number of product designs and certifications in such a short time underscores the broad potential and wide application of Volumetrically Controlled Manufacture (VCM). Moreover, the products developed have consistently been verified as the lightest in their respective markets while providing comparable or better protection than competing products. VCM has quickly established itself as a strong differentiator in our markets, and we are confident that such differentiation will drive the Company's future success as it expands and matures.

During the first half of 2008 the Company began to build out its manufacturing facilities and recruited a number of specialist engineering, manufacturing, sales and administrative support staff required to move the business forward.

The first half also saw a number of distribution channels opened both domestically and overseas with agents and distributors being appointed in various markets, particularly in Latin America.

The second half of the year saw a step change in product development with eight new body armour products being developed and marketed during the period. The Company was also granted full registration as a defence industry exporter in compliance with United States ITAR regulations allowing it to tender for sales in a number of overseas countries. Anticipated revenues lagged, however, due in part to the certification requirements of new armour plates, and the time taken to obtain ITAR export clearances. As a result, overall revenues were only US\$193,000 for the year. Following the recruitment of a new Sales and Marketing VP, Mark Pickett, towards the end of 2008 there has been a material step up in revenue generation and sales orders in the first quarter of 2009.

Financial performance

The heavy investment needed to develop the Company's management and production teams, establish the Scorpion Works division and build-out our production facilities, coupled with minimal revenue resulted in Operating Losses of US\$(15.3)m in the year compared with US\$(3.5)m 2007. The results were also affected by significant non-cash charges relating to the grant of Restricted Stock Units and Stock Appreciation Rights by the Company along with Non-qualifying Stock Options and the award of shares by its majority shareholder, Hawthorne and York International Ltd (HYI). These charges total US\$4.9 million of which US\$3.6 million resulted from awards granted by HYI. Due to HYI's majority ownership of the Company, US GAAP accounting rules (FAS 123R) require the Company to reflect awards granted by HYI in its financial results. These charges are non-cash items and, in the case of the HYI's awards, are non-recurring charges.

The Balance Sheet reflects the inflow of equity and the significant capital expenditure (US\$ 5.8m) during the fiscal year with the net asset position at the end of the period tempered by the ongoing operating losses sustained by the business. Period end cash on hand was US\$1.2m.

Fund Raising

In June 2008 the Company completed a secondary fund-raising of US\$7.0 million prior to expenses, with a number of existing and new investors subscribing for shares. As previously announced, the Company raised US\$16m (before fees and expenses) in connection with its IPO in December, 2007. These funds have been used to repay pre-IPO debt (US\$2.9m), settle IPO fees and expenses (US\$2.2m), fund the necessary capital equipment required to establish the Company's manufacturing capabilities (US\$5.8m), and fund ongoing Working Capital needs

(US\$10.0m). The Company at year-end 2008 was debt free with a positive cash balance of US\$1.2m.

On 19 June 2009, the Company announced that it closed a fund-raising by which it has raised US\$2,500,000, before expenses, through a placing with investors of 166,667 new common shares. The net proceeds will be used for initial short term working capital needs. The Company will consider undertaking further fundraisings if necessary to provide for the implementation of its growth strategy over the medium term (including longer term working capital, research and development and international business development) which may or may not take place over the next six months.

The Company has also recently established an accounts receivable financing facility to contribute towards its working capital needs going forward. The amount expected to be made available to the Company pursuant to this facility in the next 12 months is approximately \$2.0m.

Going Concern Disclosure required by US GAAP

US GAAP accounting rules require the Company to validate that it has sufficient working capital either on hand, irrevocably pledged or reasonably secured through ongoing operational activity. If there is any shortfall or material uncertainty that the company may not have or generate the working capital it requires for a minimum period of twelve months subsequent to the date of the accounts, then the Company is required to disclose this in the footnotes to the financial statements. The recently completed round of equity fund raising is not sufficient to meet the company's capital requirements over the required period, but the Board believes the company is well-positioned to secure sufficient funds over the coming months and shall report its progress. The company has included a formal disclosure note (Note 2) on its Going Concern situation. In addition, the auditors report includes an explanatory paragraph concerning this uncertainty.

Board and Management

In April 2008, Dr. James A. St. Ville moved from Chief Executive Officer to Chairman with the appointment of Charles Snyder as CEO. With the transition of the business from a development company to a commercial entity, the Board has concluded that new skills are needed to accelerate corporate growth and exploit value in intellectual property which is not currently being utilized. On 19 June 2009, the company announced the appointment of Philip A. Clement as its Interim President & Chief Executive Officer, effective 22 June 2009. Charles Snyder resigned as

a director and Chief Executive Officer of the Company effective 22 June 2009. The Board would like to take this opportunity to thank Charles for his valuable contribution to the establishment of the business in 2008. The company has commenced a search for a permanent Chief Executive Officer.

The Board has also accepted the resignation as Chief Financial Officer of David Seaton who has decided to relocate back to the UK. Again, the board thanks him for his significant contribution to the development of the business over the past 12 months. David will be replaced on an interim basis by J. Craig Johnson, who was previously Armor's Director of Finance. Mr Johnson was appointed Acting Chief Financial Officer, effective 22 June 2009. Mr. Johnson has not been appointed to the board at this time.

The Board has been further strengthened by the appointment of William A. Roper, former Executive Vice President and CFO of SAIC, Inc. (Science Applications International Corporation), a diversified technology services company, as a non-executive director.

Outlook

2009 is expected to be another challenging year for Armor. In the first quarter of 2009 the Company has already achieved some progress in revenue generation, with a strong pipeline of tenders awaiting award. 2009 has seen the development of products for markets other than personal protection, with armour solutions for an aviation related tender already having been submitted. Subject to the Company being able to raise a significant level of new funds the Board believes the Company can take a material step forward towards achieving positive operational cash flows.

Dr James St Ville

Chairman

23 June 2009

Armor Designs, Inc.
CONSOLIDATED BALANCE SHEETS
(Unaudited) December 31,

	2008	2007
	US\$	US\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	1,199,179	13,521,453
Receivable from sale of stock	1,189,922	3,304,000
Contracts and other Receivables	176,642	7,763
Inventory	456,194	0
Prepaid Expenses & Deposits	194,816	67,389
Total Current Assets	3,216,753	16,900,605
PROPERTY AND EQUIPMENT		
Net of accumulated Depreciation	3,461,623	122,678
DEPOSITS		
Equipment	2,374,359	1,005,477
Other	116,940	49,000
Total Deposits	2,491,299	1,054,477
Note Receivable	830,000	0
TOTAL ASSETS	9,999,675	18,077,760
LIABILITIES AND EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Line of Credit – related party	0	2,941,467
Accounts Payable	289,351	1,376,889
Accrued Expenses	861,527	1,109,553
Accounts Payable – related party	202,584	111,266
Total Current Liabilities	1,353,462	5,539,175
EQUITY (DEFICIT)		
Common Stock, 0.001 par value; Authorised shares 50,000,000 Issued Shares 26,524,300 and 25,922,500 as of 2008 and 2007 respectively	26,625	25,923
Additional Paid In Capital	34,917,341	23,481,171
Deficit accumulated during development stage	(26,297,753)	(10,968,509)
TOTAL EQUITY	8,646,213	12,538,585
TOTAL LIABILITIES AND EQUITY	9,999,675	18,077,760

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

Armor Designs, Inc.
CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited) Years ended December 31,

	From 5 October 2004 to 31 December 2008	Year Ended 31 December 2008	Year Ended 31 December 2007
	US\$	US\$	US\$
REVENUE	192,816	192,816	0
COST OF GOODS SOLD	1,805,006	1,805,006	0
GROSS MARGIN	(1,612,190)	(1,612,190)	0
OPERATING EXPENSES:			
Research and development	9,050,795	1,914,040	1,024,922
General and administrative	12,495,463	10,485,710	1,453,823
Selling and marketing	1,012,620	744,742	198,318
Other	233,960	233,960	0
Total Operating Expenses	22,792,838	13,378,452	2,677,063
OTHER INCOME/EXPENSES			
Interest income / expense, net	1,547,475	(6,647)	816,904
Loss on investment, net	345,249	345,249	0
Total Other Income/Expenses	1,892,724	338,602	816,904
Loss before income taxes	(26,297,753)	(15,329,244)	(3,493,967)
Provision for income taxes	0	0	0
Net loss	(26,297,753)	(15,329,244)	(3,493,967)
Basic and diluted loss per share		(0.58)	(0.16)
Shares used in computation of basic and diluted loss per share		26,233,893	22,509,377

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

Armor Designs, Inc.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
(Unaudited) Years ended 31 December 2008 and 2007

	Common Stock		Additional Paid-In Capital	Deficit Accumulated During the Development Stage	Total
	Shares	Amount		US	
Balances, 5 October 2004	-	-	-	-	-
Issuance of Common Stock	22,500,000	22,500	727,900	-	-
Net loss	-	-	-	(1,854,065)	(1,854,065)
Balances, 31 December 2004	22,500,000	22,500	727,900	(1,854,065)	(1,103,665)
Net loss	-	-	-	(3,220,019)	(3,220,019)
Balances, 31 December 2005	22,500,000	22,500	727,900	(5,074,084)	(4,323,684)
Member contributions	-	-	100	-	100
Net loss	-	-	-	(2,400,458)	(2,400,458)
Balances, 31 December 2006	22,500,000	22,500	728,000	(7,474,542)	(6,724,042)
Issuance of common stock in exchange for convertible debt	1,822,500	1,823	8,998,177	-	9,000,000
Issuance of common stock on London AIM, net of expenses of US2,243,406	1,600,000	1,600	13,754,994	-	13,756,594
Net loss	-	-	-	(3,493,967)	(3,493,967)
Balances, 31 December 2007	25,922,500	25,923	23,481,171	(10,968,509)	12,538,585
Issuance of common stock, net of expenses of US489,786	701,800	702	6,527,513	-	6,528,215
Issuance of common stock by majority shareholder	-	-	3,614,985	-	3,614,985
Stock based compensation	-	-	1,293,672	-	1,293,672
Net Loss	-	-	-	(15,329,244)	(15,329,244)
Balances, 31 December 2008	26,624,300	26,625	34,917,341	(26,297,753)	8,646,213

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

Armor Designs, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) Years ended December 31,

	From 5 October 2004 to 31 December 2008	Year Ended 31 December 2008	Year Ended 31 December 2007
Cash flows from operating activities:			
Net Loss	(26,297,753)	(15,329,244)	(3,493,967)
<i>Adjustments to reconcile net loss to net cash used in operating activities</i>			
Depreciation & Amortization	300,912	296,630	4,282
Stock based compensation	4,908,657	4,908,657	0
<i>Changes in Assets & Liabilities</i>			
Contracts and other receivables	(1,366,564)	1,945,199	(3,032,441)
Inventory	(456,194)	(456,194)	0
Prepaid Expenses & Deposits	(311,756)	(195,367)	(101,389)
Notes Receivable	(830,000)	(830,000)	0
Accounts Payable & Accrued Expense	1,353,462	(1,244,246)	1,752,840
Net cash used in operating activities	<u>(22,699,236)</u>	<u>(10,904,565)</u>	<u>(4,870,675)</u>
<i>Cash flows from investing activities:</i>			
Purchase of Property & Equipment	(3,762,535)	(3,635,575)	(126,960)
Deposits paid for property & equipment	(2,374,359)	(1,368,882)	(1,005,47)
Net cash used in investing activities:	<u>(6,136,894)</u>	<u>(5,004,457)</u>	<u>(1,132,437)</u>
<i>Cash flows from financing activities:</i>			
Payments on Line of Credit - Related Party	(5,435,554)	(2,941,467)	(775,339)
Borrowings on Line of Credit - Related Party	5,435,554	0	451,689
Proceeds from issuance of convertible bonds	9,000,000	0	6,025,000
Proceeds from sale of common stock	20,284,809	6,528,215	13,756,594
Members Contributions	750,500	0	0
Net cash provided by financing activities	<u>30,035,309</u>	<u>3,586,748</u>	<u>19,457,944</u>
Net increase (decrease) in cash and cash equivalents	1,199,179	(12,322,274)	13,454,832
Cash and cash equivalents:			
Beginning		13,521,453	66,621
End of Period		<u>1,199,179</u>	<u>13,521,453</u>
Supplemental cash flow information:			
Cash paid for interest	1,391,011	6,776	721,259
Supplemental disclosure of non-cash investing and financing activities:			
Conversion of bonds into common stock and warrants	9,000,000	0	9,000,000

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

NOTE 1 - NATURE OF BUSINESS

Armor Designs, Inc. (the Parent) was incorporated in Delaware on 30 March 2006. On 1 January 2007, 100% of the membership interests of Armor Designs LLC (the Subsidiary) were exchanged for common stock of the Parent.

The exchange does not meet the definition of a business combination, and, as such, purchase accounting does not apply. For purposes of the statement of changes in equity (deficit) and for computation of earnings per share, the exchange (including the issuance of common stock) has been presented retroactively.

The Subsidiary was organised in Delaware on 30 September 2004. The financial statements prior to incorporation of the Parent represent activities of the Subsidiary. The Parent and Subsidiary (collectively the Company) are engaged in the business of developing, manufacturing and marketing innovative armour products to the defense and law enforcement industries. The Company's focus is primarily on introducing next generation armour based on patented Volumetrically Controlled Manufacturing (VCM) technology.

The Company continued to focus on transitioning from a development stage entity to commercialisation of its products. The focus of the Company's efforts is the generation, testing, manufacture and marketing of armour products. The Company's success will depend on its ability to effectively develop, manufacture, obtain certification and market innovative armour for military and law enforcement use. The Company expects to exit the development stage during fiscal year 2009.

These financial statements have been prepared in accordance with accounting policies generally accepted in the United States of America ("US GAAP"). These financial statements are presented in US dollars, unless otherwise stated.

NOTE 2 — GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business as they become due.

For the year ended 31 December 2008, the Company incurred net losses from operations of US\$15.3 million and has accumulated US\$26.3 million from inception. Additionally, during the year ended 31 December 2008, the Company had negative cash flows from operating activities of US\$10.9 million. Historically, The Company has relied, in part, upon debt financing, loans from related entities and raising new capital to fund its operations. In the past, the Company has been successful in obtaining the capital necessary to meet its obligations; however, there are no assurances that the Company will be able continue to raise the sufficient funds needed for working capital until such time as the operations can provide positive cash flow.

The Company's ability to continue as a going concern is predicated upon its ability to improve operating results and to continue to fund its cash needs. Management is pursuing ways to improve operating results in order to generate additional cash flow from operations. In addition, management has developed a plan to raise additional capital, if necessary, through the issuance of its common stock or other equity securities, as well as secure debt financing collateralized by the company's assets. Management has the ability to curtail spending and negotiate payments to third parties, in the event the next round of funding takes longer than anticipated.

Subsequent to 31 December 2008, the Company has completed a borrowing facility to finance its accounts receivables, secured short-term debt financing and has entered into several subscription agreements with investors to purchase common stock of the Company. As of 15 June 2009, the Company has received proceeds from accounts receivable and debt financing of US\$837,000, As of

15 June 2009, the Company has received proceeds from the sale of common stock of US\$0.1 million and collected the US\$1.0 million outstanding balance at 31 December 2008 on the common stock receivable. In addition, the Company has received commitments through executed subscription agreements for the purchase of the Company's common stock of US\$2.4 million.

The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result if the Company is unable to operate as a going concern.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as net sales and expenses reported for the periods presented. The most significant estimates relate to revenue recognition, inventory obsolescence, bad debts, long-lived assets, stock-based compensation, and income taxes. The Company regularly assesses these estimates and, while actual results may differ, management believes that the estimates are reasonable.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all cash balances with maturities of less than 90 days to be cash equivalents. While cash held by financial institutions may at times exceed federally insured limits, management believes that no material credit or market risk exposure exists due to the high quality of the institutions. The Company invested a portion of the proceeds from the Placing described in Note 4. in British gilt. As a result of the general economic downturn during 2008, the Company realized a loss of US\$566,281 on that investment for the year ended 31 December 2008. The loss was partially offset by other investment income of US\$220,757. At 31 December 2008 the Company had no investment in British gilt.

Fair Value of Financial Instruments and Concentrations of Risk

Financial instruments, consisting of cash, contracts and other receivables, accounts payable and accrued expenses, are recorded at cost, which approximates fair value based on the short-term maturities of these instruments and the current bond issue price.

Contracts and other receivables are derived from related party advances and revenue due to the Company under a long-term contract. To date, the Company has not experienced any material credit losses, and therefore has not recorded an allowance for uncollectible accounts.

Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Currently, the Company has no historical collection experience, and therefore has not recorded an allowance for uncollectible accounts.

Inventory Valuation

Inventories are valued at the lower of cost or market with cost determined using the First-In, First-Out (FIFO) method, with standard costs approximating actual costs.

<u>Inventory</u>	<u>2008</u>	<u>2007</u>
Raw Materials	\$264,548	\$0
Finished Goods	<u>187,921</u>	0
Total Inventory	\$456,194	\$0

Property and Equipment

Depreciation is provided using the straight-line method over an estimated useful life of three years for computer equipment and seven years for capital equipment. Leasehold Improvements are amortized over the remaining life of the lease as of the date the asset is placed in service.

	<u>2008</u>	<u>2007</u>
Depreciation Expense	\$230,096	\$4,282
Amortization Expense	\$66,534	\$0

Revenue Recognition

The Company sells its armour products primarily to the defense and law enforcement industries. A portion of the Company's products are also sold through distributors or resellers. The Company recognizes revenue on product sales when persuasive evidence of an arrangement with the customer exists, title to the product passes to the customer (usually occurs at the time of shipment), the sales price is fixed or determinable, and collectability of the related billing is reasonably assured. Advance payments from customers are deferred and recognized when the related products are shipped.

Shipping Costs

Shipping costs include charges associated with delivery of goods from the Company's facilities to its customers and are reflected in cost of goods sold. Shipping costs paid to the Company by our customers only for amounts that are a direct reimbursement for shipping are classified as an offset to cost of goods sold.

Product Warranties

Estimated future warranty obligations related to certain products will be provided by charges to operations in the period in which the related revenue is recognized. The Company has not established a reserve for warranty obligations.

Research and Development

Research and development costs are expensed as incurred and are detailed in Note 7.

Stock-Based Compensation

The Company records stock-based compensation in accordance with SFAS 123(R), Share-Based Payment. SFAS 123(R) requires the measurement and recognition of compensation expense in the financial statements for all share-based awards to employees based on estimated fair values. This statement was adopted using the modified prospective method. Under this method, compensation

expense includes the estimated fair value of equity awards vested during the reported period. The Company's first issuance of stock-based compensation occurred 31 December 2007.

<u>Compensation Expense</u>	<u>2008</u>	<u>2007</u>
Restricted Stock Units (RSUs)	\$878,397	\$0
Stock Appreciation Rights (SARs)	\$223,458	\$0
Non-Qualified Stock Options	\$191,817	\$0

A summary of the Company's stock option activity for fiscal years 2007 and 2008 follows:

	RSUs		SARs		Stock Options	
	Shares Under Option	Weighted Average Exercise Price per Share US\$	Shares Under Option	Weighted Average Exercise Price per Share US\$	Shares Under Option	Weighted Average Exercise price per Share US\$
31 December 2006	–	–	–	–	–	–
Granted in 2007	438,500	–	69,400	10.00	–	–
31 December 2007	438,500	–	69,400	10.00	–	–
Granted in 2008	205,000	–	103,000	10.00	2,600,000	10.00
Forfeited in 2008	(100,000)	–	(6,300)	10.00	–	10.00
31 December 2008	543,500	–	166,100	10.00	2,600,000	10.00

The Company recognises compensation expense using the straight-line method for stock option awards that vest ratably over the vesting period. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The fair value of each option was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	<u>Year ended 31 December 2008</u>	<u>Year ended 31 December 2007</u>
Expected options term (years)	5.9	10.0
Risk free interest rate	2.03%	3.29%
Dividend yield	–	–
Volatility	1.79%	3.00%

The table above is based on the Company's use of (i) the expected life of the awards representing the weighted-average period the awards are expected to remain outstanding; (ii) the risk-free interest rate assumption based upon observed interest rates appropriate for the weighted average expected option life of the Company's employee stock options; (iii) the dividend yield assumption based on the Company's history and expectation of dividend payouts; and (iv) historical volatility of the selected peer group as the expected volatility in the Black-Scholes model.

Income Taxes

The Company accounts for income taxes using the asset and liability method recognising temporary differences between the financial reporting and tax bases of its assets and liabilities as set forth in SFAS 109, *Accounting for Income Taxes and Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*. This method results in deferred income tax assets and liabilities at the balance sheet date measured by the statutory tax rates in

effect as enacted. The Company's deferred income tax assets include certain future income tax benefits net of appropriate valuation allowances. Recognition of deferred tax assets is limited to amounts considered by the Company to be more likely than not realisable in future periods with all tax benefits associated with losses incurred having been reserved.

Principles of Consolidation

The financial statements include the accounts of Armor Designs, Inc. and Armor Designs, LLC. All material intercompany balances and transactions have been eliminated in consolidation.

NOTE 4 - PUBLIC OFFERING AND STOCK SPLIT

On 20 December 2007, the Company effected a 450 for 1 stock split. Each holder of record as of that date received four hundred fifty shares for each share of common stock held. The par value of US\$0.001 per share did not change with the stock split. The accompanying financial statements reflect this transaction retroactively.

On 31 December 2007, the common shares of the Company were admitted to trading on the AIM Market of the London Stock Exchange ("Admission"). Upon Admission, Capita Registrars (Jersey) Limited began serving as the Registrar of the Company.

The Company raised US\$16,000,000, before expenses, by issuing 1,600,000 common shares at a price of US\$10 per share pursuant to a placing (the "Placing") in conjunction with the Admission. These shares constitute approximately 6.0 percent of the Company's share capital at 31 December 2007. At admission, the Company had 25,922,500 common shares in issue and a market capitalisation of US\$259,225,000 at the placing price of US\$10.

The Placing shares were not registered under the US Securities Act of 1933. The shares were only offered (i) outside the United States to non-US persons in reliance on Regulation S under the Securities Act and (ii) within the US to Accredited US investors in reliance on Regulation D under the Securities Act. Of the 1,600,000 common shares issued in connection with the Admission 1,275,000 were issued in reliance on Regulation S and 325,000 were issued in reliance on Regulation D.

The Company raised US\$7,018,000, before expenses, during the period ended December 2008 by issuing 701,800 common shares at a price of US\$10 per share pursuant to Market Demand Arrangements put in place in conjunction with the Admission. These shares constitute approximately 2.6 percent of the Company's share capital at 31 December 2008. Funds in the amount of US\$5,810,078 were collected from the sale of common stock as of 31 December 2008. Funds in the amount of US\$1,189,922 were included in the Balance Sheet as a receivable from the sale of stock as of 31 December 2008. The remaining receivable balance was collected in full subsequent to year end.

As of 31 December 2008, the Company had 26,524,300 common shares in issue and a market capitalisation of US\$213,255,372 based on the Company's closing stock price of US\$8.04 (trading price of £5.50 converted utilizing an exchange rate of 1.4619) on 31 December 2008. At admission on 31 December 2007, the Company had 25,922,500 common shares in issue and a market capitalisation of US\$259,225,000 at the placing price of US\$10.00.

Upon admission to AIM, the conversion features of outstanding convertible bonds were triggered (see Note 5). Each convertible bond unit issued converted to 2.025 shares of Common Stock and 2.025 warrants to purchase one share of Common Stock in the Company. Each warrant granted entitled the holder to purchase one Common Share at a price per share of 125 percent of the placing price of \$US10, or US\$12.50, exercisable on or before the second anniversary of admission or the date of any secondary issue of Common Shares by the Company following admission. All Bond Warrants expire if they are not exercised on the Warrant Exercise Date. A total of 1,822,500 common shares and 1,822,500 warrants were issued as a result of the conversion.

NOTE 5 - CONVERTIBLE BONDS

During 2007, the Company issued 10% series A convertible bonds. Through 31 December 2007, the Company raised US\$6,025,000 from the sale of these bonds at par. The bonds carried an original maturity date of 31 March 2011. Interest was payable semi-annually in May and November. Interest expense related to the convertible bonds amounts to US\$0 and US\$525,755 for the years ended 31 December 2008 and 2007, respectively. All convertible bonds have been converted into common stock effective 31 December 2007. As such, no interest charges have been accrued during the period.

The bonds were automatically convertible into shares of the Company's common stock in the event that any of the following occur: the consummation of an initial public offering or substantial private investment, the sale of all or substantially all of the assets of the Subsidiary or holding company, or an optional conversion event in which the Subsidiary has the option to call the bonds at par value, plus any accrued and unpaid interest after 31 December 2007. The conversion rate of the bonds was dependent on the type of conversion event noted above. The bonds expressed that each share of converted stock would carry a warrant to purchase another share of stock at 125% of a price to be determined. Upon Admission to AIM on 31 December 2007, the above conversion features were triggered and all convertible bond units were converted into common shares (see Note 4). Upon conversion, bondholders received 20,250 common shares for each US\$100,000 bond unit held. The same rate was used for the issuance of the warrants. A total of 1,822,500 common shares and 1,822,500 warrants were issued upon conversion.

NOTE 6 - WARRANTS AND OPTIONS

Warrants for 1,822,500 shares of Common Stock and Restricted Stock Units (RSUs) / Stock Appreciation Rights (SARs) for 507,900 shares of Common Stock were outstanding at the time of the Admission. Exercise of any of these warrants or options would have a commensurately dilutive effect on the holdings of the previously issued Common Shares.

Beginning with the year ended 31 December 2007, the Company issued stock awards to various advisors and key employees as a means of attracting and retaining quality personnel. The award holders have the right to purchase a stated number of shares at the exercise price determined in the agreement. These options are issued under the Armor Designs, Inc 2007 Omnibus Incentive Plan (Plan). The Plan allows the Company to issue RSUs, SARs and Non-Qualified Stock Options (Stock Options). Awards may be made under the Plan over shares of common stock not to exceed 10% of the issued share capital of the Company at the date of the award.

A summary of the Company's option activity and related full grant date fair value is as follows:

	RSUs		SARs		Stock Options	
	Shares Under Option	US\$	Shares Under Option	US\$	Shares Under Option	US\$
31 December 2006	—	—	—	—	—	—
Granted in 2007	438,500	4,381,836	69,400	193,233	—	—
31 December 2007	438,500	4,381,836	69,400	193,233	—	—
Granted in 2008	205,000	1,682,282	103,000	180,008	2,600,000	191,817
Forfeited in 2008	(100,000)	(999,278)	(6,300)	(17,541)	—	—
31 December 2008	543,500	5,064,840	166,100	355,700	2,600,000	191,817

The aggregate intrinsic value represents the total pretax intrinsic value, based on the Company's closing stock price of US\$8.04 (trading price of £5.50 converted utilizing an exchange rate of 1.4619) on 31 December 2008, the last day of trading in the fiscal year, as a result, there were no in-the-money options exercisable at 31 December 2008.

A summary of the Company's option activity and related vesting value is as follows

	RSUs		SARs		Stock options	
	Shares Under Options	US\$	Shares Under Options	US\$	Shares Under Options	US\$
31 December 2006	–	–	–	–	–	–
Granted in 2007	438,500	4,381,836	69,400	193,233	–	–
Vested in 2007	–	–	–	–	–	–
Nonvested at 31 December 2007	438,500	4,381,836	69,400	193,233	–	–
Granted in 2008	205,000	1,682,282	103,000	180,008	2,600,000	191,817
Vested in 2008	(133,625)	(1,335,286)	(40,775)	(88,782)	(2,600,000)	(191,917)
Forfeited in 2008	(100,000)	(999,278)	(6,300)	(17,541)	–	–
Nonvested at 31 December 2008	409,875	3,729,554	125,325	266,918	–	–

A compensation expense of US\$878,397 for RSU's and US\$223,404 for SAR's was recognised during 2008 as the first vesting period occurred in 2008. Compensation expense per FAS 123R requirements will be recognised rateably over the four-year period. Additional awards were made during the period ended 31 December 2008 in the form of Stock Options. The Non-Qualified Stock Options were fully vested when issued and resulted in a compensation expense of \$191,817 recognised at 31 December 2008.

The following table shows unrecognised compensation expense related to unvested RSUs and SARs outstanding as of 31 December 2008. This table does not include an estimate for future grants that may be issued.

Fiscal Year Ended 31 December:	Amount US\$
2009	1,306,323
2010	1,306,323
2011	1,306,323
2012	4,382
Total	3,923,351

As outlined in the Placing Document, Hawthorne & York International, Ltd. ("HYI"), principal shareholder in ADI, has gifted 3.4 million shares of its ADI shareholding, equal to 13% of the total shares outstanding in the Company, for distribution to a number of individuals who have primarily assisted HYI in the years prior to bringing ADI to market. The shares gifted have been transferred into an irrevocable trust controlled by an independent trustee that will be used to distribute awards to the recipients in tranches over the coming years. The gifted shares will be distributed to individuals via the irrevocable trust in the form of 450,000 shares, and, 2,950,000 share equivalents (non-qualified stock options and restricted stock units). As of 31 December 2008, 450,000 shares have been distributed.

On 5 December 2008, HYI gifted 450,000 shares of Company Stock to an individual from the irrevocable trust described above. In accordance with SFAS 123R requirements, the Company must recognize an expense associated with the gift. As a result, the company expensed the fair value of US\$3,614,985 based on the Company's closing stock price of US\$8.033 (trading price of £5.50 converted utilizing an exchange rate of 1.4606) on 5 December 2008.

HYI has transferred 3,000,000 of its remaining ADI shares, equal to 11% of the total shares outstanding in the Company, into a securities investment portfolio account. The securities investment portfolio account into which the shares have been transferred enables borrowing against all shares

within this portfolio account and, therefore, from time-to-time, some or all of the shares within this portfolio account, including some ADI shares, could be subject to creditor liability. HYI has not divested any shares.

NOTE 7 – RESEARCH & DEVELOPMENT COSTS

Expenditures for research activities relating to product development are charged to expense as incurred. During the year ended 31 December 2007 an existing contract entered into by the Subsidiary to provide additional product testing expired. During the year ended 31 December 2008, there was no activity under the contract to net against research and development cost incurred of US\$1,914,032. For the period ended 31 December 2007 the Subsidiary earned US\$551,892 which was netted against the gross research and development cost incurred of US\$1,340,248.

NOTE 8 - RELATED PARTY TRANSACTIONS

Since inception, the Subsidiary, Armor Designs, LLC, has conducted business through transactions with a related corporation, Hawthorne & York International, Ltd. (HYI), owned by James A. St Ville, HYI owns approximately 71 percent of Armor Designs, Inc. at 31 December 2008..

During 2004, the Subsidiary entered into a services agreement with the related party whereby the related party provides interim research and development services, including labour, subcontracting, consulting, equipment and technical upgrades, materials, and other related research and development activities.

The services agreement, as it relates to research and development activities, is structured in the form of a Line of Credit with interest on unpaid invoices for services charged at an annual rate of 9%. The outstanding balance of the Line of Credit as of 31 December 2008 and 2007 was US\$0 and US\$2,941,467 and accrued interest totalled US\$0 and US\$ 22,061, respectively.

Billings from the related party for general and administrative expenses, use of third party licensed technology, and research and development services conducted on behalf of the Subsidiary were as follows:

	<u>2008</u>	<u>2007</u>
Period ended 31 December	US\$714,174	US\$494,642

Included in the accompanying consolidated balance sheets is accounts payable of US\$202,584 and US\$111,266 due to the related party at 31 December 2008 and 2007 respectively, for billings related to general and administrative and research and development activities, as well as US\$47,038 for employee health premiums paid by the related party during the year ended 31 December 2007.

Interest expense to the related party was as follows:

Period ended 31 December 2008 and 31 December 2007	US\$ 0	US\$288,986
--	--------	-------------

The Subsidiary paid rent and other facility occupancy costs on behalf of the related party for the periods ended 31 December 2008 and 2007.

Facility Occupancy costs incurred on behalf of the related party were as follows:

Period ended 31 December 2008 and 31 December 2007	US\$35,886	US\$28,267
--	------------	------------

Receivables due from the related party were as follows:

Period ended 31 December 2008 and 31 December 2007	US\$30,426	US\$7,763
--	------------	-----------

The Company maintains independent management and human resources. The Company has also entered into a lease of independent facilities. The Company continues to utilise the related party for select research and development activities, and the Line of Credit remains open.

On 3 July 2008 the Company executed a Multiple Advance Revolving Credit Note with Mr. Charles Snyder, Chief Executive Officer of the Company. The Note provides Mr. Snyder the ability to borrow up to US\$1,000,000 at a Stated Interest Rate of 1% per annum. The Note is secured by a Deed of Trust, Assignment of Rents, Security Agreement, Fixture Filing and Stock Pledge Agreement. The Note may be prepaid at any time without penalty. The total outstanding balance is due and payable on 2 July 2012 or in the event of termination or cessation of employment for any reason. As of 31 December 2008, the outstanding balance due the Company was US\$730,000.

On 3 December 2008 the Company loaned Mr. Robert McConnell, Vice President of the Company, US\$100,000. The Company has received a non-interest bearing Promissory Note reflecting the commitment to repay the loan in full by 30 June 2009. The Note provides the Company the ability to offset the amount of the loan against the stock in the Company held by the Mr. McConnell.

NOTE 9 – INCOME TAXES

For Fiscal 2008 and 2007, the Company recorded no current or deferred income tax provision expense for state or federal taxes.

The provision for income taxes for the years ended 31 December 2008 and 2007 differ from the amount computed by applying the statutory U.S. federal and state income tax rates to pre-tax loss as a result of the following:

	US\$	%
Computed tax benefit	(5,917,000)	38.6
Increases (reductions) in tax expense resulting from:		
Permanent items	1,422,000	9.3
Credits	(205,000)	(1.3)
Change in valuation allowance for deferred tax assets	4,700,000	30.6
Provision for income taxes -	<u>-</u>	<u>-</u>

The Company provides deferred income taxes which reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at 31 December 2008 and 2007 were as follows:

Deferred tax assets:	2008	2007
	US\$	US\$
Non-current		
Net operating loss carryforwards	5,370,000	1,571,000
Depreciation and amortisation	(11,000)	12,000
Research & development tax credits	329,000	96,000
Total Non-current	<u>5,688,000</u>	<u>1,679,000</u>
Current deferred tax assets (liabilities)		
Accruals	697,000	21,000
Prepaid expenses	0	(15,000)
Total current	697,000	6,000
Total deferred tax assets	6,385,000	1,685,000
Valuation allowance	<u>(6,385,000)</u>	<u>(1,685,000)</u>
Net deferred tax assets	-	-

The Company has available at 31 December 2008, unused federal and state net operating loss carryforwards of approximately US\$13,913,000 and state net operating loss carryforwards of

approximately US\$13,897,000, which may be applied against future taxable income expiring in 2027 and 2012, respectively.

Since the Company is a development stage entity in the reporting period and future revenues are unpredictable, a valuation allowance equal to net deferred tax benefits associated with the above items has been provided. The valuation allowance increased by US\$4,700,000 in 2008.

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

The Company policy is to capitalise all equipment, either moveable or fixed, with a unit acquisition cost of US\$2,500 or greater and a useful life of two years or more. Acquisition value includes the cost of the equipment and any associated costs incurred to make the equipment usable for the purpose for which it was intended, including installation costs.

As of 31 December 2008, the Company capitalised and was depreciating fixed assets per the following schedule:

	<u>Life</u>	<u>Book Value</u> US\$
Computer equipment	3	107,828
Computer software	3	130,113
Equipment	7	2,026,529
Production Molds	3	309,769
Furniture & Fixtures	7	34,121
Leaseholds	(Lease)	1,154,176
Subtotal:		<u>3,762,536</u>
Less: accumulated depreciation and amortisation		(300,912)
Total:		<u>3,461,624</u>

During the year ended 31 December 2008 the Company paid US\$2,374,358 in deposits towards the purchase of production equipment. The deposits are recorded as other assets and will be converted to fixed assets and depreciated once the equipment is placed in service.

NOTE 11 - COMMITMENTS, LEASE RENEWAL AND PURCHASE OPTIONS

In December 2007, the Company entered into an operating lease agreement for its facility located at 4645 S. 35th Street in Phoenix, Arizona. Under the agreement, the Company is required to pay rent through December 2012 as follows:

Periods ending December 31,	US\$
2008	530,807
2009	539,368
2010	547,930
2011	565,052
2012	582,175
	<u>2,765,332</u>

In December 2007, the Company entered into an Option Agreement to purchase the facility located at 4645 S. 35th Street in Phoenix, Arizona. Under the agreement, the Company was granted the exclusive right and option to purchase the property. The option became effective at the signing of the lease and continues until the earliest to occur of: (a) one hundred twenty (120) days after the

Commencement Date under the Lease; or (b) the date the Lease is terminated if such Lease is terminated prior to Company purchasing the property. The purchase price for the property under the option was US\$7,500,000.00. During the year ended 31 December 2008, the purchase option was triggered but not completed resulting in a forfeit fee of US\$200,000. The option has since expired.

Effective 13 September 2004, the Subsidiary, Armor Designs, LLC, entered into a contract with Hawthorne & York International, Ltd., a company owned by James A. St Ville (71% ownership of the Company), for use of certain licensed technological products and processes owned by the related party, until September 13, 2009, at such time the contract will automatically renew for five-year terms. The Subsidiary is obligated to pay 4% of gross sales on a quarterly basis to the related party subject to a maximum amount payable of US\$7,000 per quarter for the first 18 months after the Company commences production or sub-licences. In addition, the Subsidiary entered into a contract on the same date with Aztec IP, a company owned by James A. St Ville for use of licensed patents owned by the related party. Under this contract, the Subsidiary is obligated to pay the related entity 2% of gross sales on a quarterly basis subject to a maximum amount payable of US\$3,000 per quarter for the first 18 months after the Company commences production or sub-licences. This contract has the same expiration and renewal dates.

NOTE 12 – RETIREMENT PLAN

Employees of the Company that meet certain age and service requirements are eligible to participate in the Armor Designs, Inc. 401(k) and Profit Sharing Plan (formerly the James A. St. Ville, M.D. Savings and Profit Sharing Plan). Employer profit sharing and matching contributions to the 401(k) component of the plan and profit sharing contributions may be made at the discretion of the Company's management. The Company did not make matching or profit sharing contributions for the years ended 31 December 2008 or 2007.

NOTE 13 - EARNINGS PER SHARE

The Company accounts for income (loss) per share in accordance with SFAS No. 128 "Earnings Per Share". Basic income per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the periods presented. Diluted income per share reflects the potential dilution that could occur if outstanding stock options were exercised utilising the treasury stock method. The calculation of the weighted average number of shares outstanding and earnings per share are as follows:

<u>Basic Earnings Per Share</u>	<u>31 Dec 2008</u>	<u>31 Dec 2007</u>
Net loss after tax	US\$(15,329,244)	US\$(3,493,967)
Divided by weighted average shares	26,233,893	22,509,377
Basic loss per share	US\$(0.58)	US\$(0.16)
Diluted loss per share	US\$(0.58)	US\$(0.16)

For 2008 and 2007, because of our reported net loss, all potentially diluted securities were excluded from the per share computations due to their anti-dilutive effect.

NOTE 14 – COMMON STOCK

The Company shareholders passed a resolution at the annual Meeting held on Sept 23, 2008, that empowers the Board to repurchase or otherwise acquire shares of the Company's Common Stock in the open market or in private transactions, with such repurchases not to exceed US\$5,000,000 in the aggregate. The resolution states that no such repurchase shall be made when the capital of the Company is impaired or when such purchase or acquisition would cause any impairment of the capital of the Company.

NOTE 15 – SUBSEQUENT EVENT

On 11 June 2009, the Board accepted the resignation of Charles Snyder as a director and Chief Executive Officer of the Company effective 22 June 2009. At the time of his separation, Mr. Snyder had a balance outstanding of US\$730,000 on a personal loan from the Company. The terms of his separation provided 50% of the outstanding balance to be forgiven with the remaining balance if US\$365,000 to be paid back within six months of his separation date.

On 11 June 2009, the Board also accepted the resignation of David Seaton as a director and Chief Financial Officer effective 22 June 2009.

On 19 June 2009, the Company announced the appointment of Philip A. Clement as its Interim President & Chief Executive Officer, and J. Craig Johnson, as Interim Chief Financial Officer, both effective 22 June 2009.

In addition, The Board appointed William A. Roper as a non-executive director.