INTERNATIONAL BARRIER TECHNOLOGY INC.

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009 and 2008

(Stated in US Dollars)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Directors and Stockholders,
International Barrier Technology Inc.

We have audited the accompanying consolidated balance sheets of International Barrier Technology Inc. as of June 30, 2009 and 2008 and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these financial statements referred to above present fairly, in all material respects, the financial position of International Barrier Technology Inc as of June 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ BDO Dunwoody LLP
Chartered Accountants

Vancouver, Canada
September 28, 2009

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED BALANCE SHEETS
June 30, 2009 and 2008
(Stated in US Dollars)

ASSETS	2009	2008
Current		
Cash and cash equivalents	$ 210,723	$ 436,426
Accounts receivable	179,778	360,417
Inventory – Note 3	314,002	293,979
Prepaid expenses and deposits	46,418	58,870
	750,921	1,149,692
Property, plant and equipment – Note 4	3,826,091	4,076,017
Patent, trademark and technology rights– Note 5	272,105	512,267
	$ 4,849,117	$ 5,737,976
LIABILITIES		
Current		
Accounts payable and accrued liabilities – Note 10	$ 365,209	$ 646,656
Deferred revenue	-	7,159
Current portion of long term debt – Note 6	60,863	-
Current portion of obligation under capital leases – Note 7	53,894	63,994
	479,966	716,809
Long-term debt – Note 6	860,597	750,000
Obligation under capital leases – Note 7	344,410	398,298
	1,684,973	1,865,107
STOCKHOLDERS' EQUITY		
Common stock – Note 8		
Authorized:		
100,000,000 common shares without par value		
Issued:		
29,414,926 common shares (2008: 29,414,926 common shares)	15,079,071	15,079,071
Additional paid-in capital	1,012,052	1,002,232
Accumulated deficit	(12,926,979)	(12,208,434)
	3,164,144	3,872,869
	$ 4,849,117	$ 5,737,976

Commitments – Notes 6, 7 and 8
Contingent Liability – Note 13

APPROVED BY THE DIRECTORS:

_______________________ Director _______________________ Director
David Corcoran Victor Yates

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended June 30, 2009 and 2008
(Stated in US Dollars)

	2009	2008
Sales	$ 4,091,647	$ 4,877,605
Cost of sales – Note 4	3,514,493	4,538,519
Gross profit	577,154	339,086
Expenses		
Accounting and audit fees	74,537	45,331
Consulting fees	2,255	19,934
Filing fees	18,648	23,546
Insurance	62,399	125,974
Impairment provision on trademark and technology rights – Note 5	113,746	-
Interest and bank charges	83	247
Legal fees	73,631	64,024
Loss on settlement of lawsuit – Note 13	50,000	-
Office and miscellaneous	105,320	69,268
Sales marketing and investor relations	66,876	68,909
Telephone	12,705	12,285
Transfer agent fees	16,005	13,729
Wages and management fees – Notes 8 and 10	563,089	674,359
	1,159,294	1,117,606
Loss before other income	(582,140)	(778,520)
Foreign exchange gain / (loss)	(58,088)	31,127
Interest income	7,521	21,152
Interest on long-term obligations	(85,838)	(82,109)
Net loss for the year	$ (718,545)	$ (808,350)
Basic and diluted loss per share	$ (0.02)	$ (0.03)
Weighted average number of shares outstanding	29,414,926	29,414,926

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2009 and 2008
(Stated in US Dollars)

	2009	2008
Operating Activities		
Net loss for the year	$ (718,545)	$ (808,350)
Items not involving cash:		
Depreciation – plant and equipment	264,122	260,335
Amortization – patent, trademark and technology rights	126,416	126,416
Stock-based compensation	9,820	47,329
Settlement of lawsuit	50,000	-
Impairment provision on trademark and technology rights	113,746	-
Changes in non-cash working capital balances related to operations:		
Accounts receivable	180,639	(109,486)
Inventory	(20,023)	184,525
Prepaid expenses and deposits	12,452	1,305
Deferred revenue	(7,159)	387
Accounts payable and accrued liabilities	(330,447)	217,885
	(318,979)	(79,654)
Investing Activities		
Purchase of plant and equipment	(14,196)	(434,095)
Financing Activities		
Bank loan facility	475,000	-
Increase (decrease) in long-term debt	(303,540)	459,789
Decrease in obligations under capital lease	(63,988)	(66,930)
	107,472	392,859
Decrease in cash during the year	(225,703)	(120,890)
Cash and cash equivalents, beginning of the year	436,426	557,316
Cash and cash equivalents, end of the year	$ 210,723	$ 436,426
Supplementary cash flow information		
Cash paid for interest	$ 85,838	$ 82,109
Cash paid for income taxes	$ -	$ -

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
for the years ended June 30, 2009 and 2008
(Stated in US Dollars)

	Common Stock				
	Issued Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance, June 30, 2007	29,414,926	$ 15,079,071	$ 954,903	$ (11,400,084)	$ 4,633,890
Stock-based compensation	-	-	47,329	-	47,329
Net loss for the year	-	-	-	(808,350)	(808,350)
Balance, June 30, 2008	29,414,926	15,079,071	1,002,232	(12,208,434)	3,872,869
Stock-based compensation	-	-	9,820	-	9,820
Net loss for the year	-	-	-	(718,545)	(718,545)
Balance, June 30, 2009	29,414,926	$ 15,079,071	$ 1,012,052	$ (12,926,979)	$ 3,164,144

SEE ACCOMPANYING NOTES

Note 1 Nature of Operations

The Company develops, manufactures and markets proprietary fire resistant building materials branded as Blazeguard in the United States of America and, as well, the Company owns the exclusive U.S. and international rights to the Pyrotite fire retardant technology.

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its obligations and commitments in the normal course of operations. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At June 30, 2009 the Company had an accumulated deficit of $12,926,979 (2008 - $12,208,434) since its inception and incurred a net loss of $718,545 (2008 - $808,350) for the year then ended, all of which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management has no formal plan in place to address this concern but considers obtaining additional funds by equity financing and/or from issuing promissory notes. While the Company is expending its best efforts to achieve the above plans, there is no assurance that any such activity will generate funds for operations.

The Company was incorporated under the British Columbia Company Act and is publicly traded on the TSX Venture Exchange in Canada ("TSX-V") and the OTC Bulletin Board in the United States of America. During the years ended June 30, 2009 and June 30, 2008, the Company had assets in each of Canada and the United States of America and generated sales primarily in the United States of America.

Note 2 Significant Accounting Policies

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses in the reporting period. The Company regularly evaluates estimates and assumptions related to deferred income tax asset valuations, asset impairment, stock based compensation and loss contingencies. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

The financial statements have, in management's opinion, been properly prepared within the framework of the significant accounting policies summarized below:

Note 2 Significant Accounting Policies – (cont'd)

a) Principles of Consolidation

These consolidated financial statements include the accounts of International Barrier Technology Inc. and its wholly-owned subsidiaries, Pyrotite Coatings of Canada Inc., a Canadian company and Barrier Technology Corporation, a US company. All inter-company transactions and balances have been eliminated.

b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term term deposits, redeemable within 90 days of inception, held at Canadian banks.

c) Inventory

Inventory is valued by management at the lower of FIFO (first-in, first-out) and net realizable value. Additionally, as required by SFAS No. 151, "Inventory Costs – an Amendment of ARB No. 43, Chapter 4", items such as abnormal amounts of idle facility expense, freight, handling and wasted material be recognized as current period charges rather than inventory value.

d) Plant and Equipment, Trademark and Technology Rights and Amortization

Plant and equipment and trademark and technology rights are recorded at cost. Amortization is provided using the straight line method with the following estimated useful lives:

Manufacturing equipment	straight line over 5 years
Equipment and furniture	20% - declining balance
Computer equipment	30% - declining balance
Railway spur	4% - declining balance
Equipment under capital lease	20% - declining balance
Building under capital lease	straight line over 20 years
Patent, trademark and technology rights	straight line over 8 years

Leasehold Improvements are depreciated on a straight–line basis over the shorter of the lease term or economic life.

e) Impairment of Long-Lived Assets

The Company reviews the recoverability of its long-lived assets as required by SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about future operating performance, and may differ from actual cash flows. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. During the year ended June 30, 2009, the Company recorded an impairment provision of $113,746 (2008 - $nil) related to the Company's trademark and technology rights (Note 5).

Note 2 Significant Accounting Policies – (cont'd)

f) Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

g) Foreign Currency Translation

The functional currency for the Company's operations is the US dollar. Monetary assets and liabilities denominated in Canadian dollars are translated into U.S. dollars at the exchange rate prevailing at the end of the year. Non-monetary assets and liabilities are translated at the exchange rate prevailing at the respective transaction dates while revenues and expenses are translated at the average exchange rate during the year. Exchange gains and losses are recognized in the statement of operations.

h) Research and Development Costs

Research and development costs are expensed in the year in which they are incurred.

i) Basic and Diluted Loss Per Share

Basic net loss per common share is calculated by dividing net loss by the weighted-average number of common shares outstanding for the period. Diluted net loss per common share is the same as basic net loss per common share, since potentially dilutive securities from stock options would have an anti-dilutive effect because the Company incurred a net loss during each period presented. The number of shares potentially issuable at June 30, 2009 and 2008 upon exercise or conversion that were not included in the computation of net loss per share totaled 1,941,750 and 2,107,550 respectively

j) Financial Instruments

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank loan facility and long-term debt.. Unless otherwise noted, the fair values of these financial instruments approximate their carrying values.

Note 2 Significant Accounting Policies – (cont'd)

k) Accounts Receivable and Concentrations of Credit Risk

The Company grants credit to its customers in the normal course of business. Trade receivables are typically non-interest bearing and are initially recorded at cost. Sales to the Company's recurring customers are generally made on open account terms. Past due status of customer accounts is determined based on how recently payments have been received in relation to payment terms granted. Credit is generally extended based upon an evaluation of each customer's financial condition, with terms consistent in the industry and no collateral required. Losses from credit sales are provided for in the financial statements and consistently have been within the allowance provided. The allowance is an estimate of the uncollectibility of accounts receivable based on an evaluation of specific customer risks along with additional reserves based on historical and probable bad debt experience. Amounts are written off against the allowance in the period the Company determines that the receivable is uncollectible. The Company has not recorded an allowance against its accounts receivable for each of the years ended June 30, 2009 and 2008. During the year ended June 30, 2009, one customer accounted for 69% (2008: one customer accounted for 74%) of the Company's sales. The loss of this customer or the curtailment of purchases by such customer could have a material adverse effect on the Company's financial condition and results of operations.

Currency Risk

The Company holds cash of $184,032 (2008 - $414,411) in Canadian dollars exposing it to a foreign currency exchange risk.

l) Revenue Recognition

The Company recognizes revenue in accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin 104, "Revenue Recognition", which requires that: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the sales price is fixed and determinable, and (iv) collectibility is reasonably assured. The Company recognizes revenue when the building supplies have been shipped and the customer has been invoiced.

l) Income Taxes

The Company follows the liability method of accounting for income taxes in accordance with SFAS No. 109. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Deferred income tax assets and liabilities are recognized in the current year for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Deferred income tax assets and liabilities are measured using tax rates and laws expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in operations in the year of change. A valuation allowance is recorded when it is "more likely-than-not" that a deferred tax asset will not be realized.

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Note 2 Significant Accounting Policies – (cont'd)

m) Stock-based Compensation

The Company accounts for all stock-based payments and awards under the fair value based method.

Stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until the counterparty performance is complete, and any change therein is recognized over the vesting period of the award and in the same manner as if the Company had paid cash instead of paying with or using equity based instruments. The cost of the stock-based payments to non-employees that is fully vested and non-forfeitable as at the grant date is measured and recognized at that date.

The Company accounts for the granting of share purchase options to employees using the fair value method whereby all awards to employees will be recorded at fair value on the date of the grant. The fair value of all share purchase options are expensed over their vesting period with a corresponding increase to additional paid-in capital. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in additional paid-in capital is recorded as an increase to share capital

The Company uses the Black-Scholes option pricing model to calculate the fair value of share purchase options at the date of the grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

o) Recent Accounting Pronouncements

Recently adopted accounting pronouncements

In September, 2006, FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS No. 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS No. 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Note 2 Significant Accounting Policies – (cont'd)

o) Recent Accounting Pronouncements - (cont'd)

Recently adopted accounting pronouncements – (cont'd)

Level 1- quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - observable inputs other than Level I, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and

Level 3 - assets and liabilities whose significant value drivers are unobservable by little or no market activity and that are significant to the fair value of the assets or liabilities.

SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. SFAS No. 157 does not expand the use of fair value in any new circumstances. Originally, SFAS No. 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Accordingly, we adopted SFAS No. 157 in the first quarter of fiscal year 2009. In February 2008, the FASB issued FASB Staff Position No. 157-2, "Effective Date of FASB Statement No. 157", which provides a one year deferral of the effective date of SFAS No. 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. The partial adoption of SFAS 157 was prospective and did not have a significant effect on the Company's consolidated results of operations and financial condition. The Company is currently evaluating the impact of measuring the remaining non-financial assets and non-financial liabilities under FSP No. 157-2 on its financial position, results of operations and cash flows.

In May 2009, the FASB issued SFAS No. 165 "Subsequent Events" ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 sets forth (1) The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (3) The disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009 and is applied prospectively. The adoption of this statement did not have a material effect on the Company's financial statements. The Company has evaluated subsequent events through September 28, 2009 which represents the date on which the financial statements were issued.

Effective July 1, 2008, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 159, The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115. SFAS No. 159 gives the Company the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis with the difference between the carrying value before election of the fair value option and the fair value recorded upon election as an adjustment to beginning retained earnings. As at June 30, 2009, the Company has not elected the fair value option on any of its financial assets or liabilities.

Note 2 Significant Accounting Policies – (cont'd)

o) Recent Accounting Pronouncements - (cont'd)

Recent Accounting Pronouncements Not Yet Adopted

In December 2007, FASB issued Statement No. 141 (Revised 2007), Business Combinations ("SFAS 141(R)") and SFAS No. 160, Accounting and Reporting of Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 ("SFAS 160") SFAS 141(R) requires companies to: (i) recognize, with certain exceptions, 100% of the fair values of assets acquired, liabilities assumed, and non-controlling interests in acquisitions of less than a 100% controlling interest when the acquisition constitutes a change in control of the acquired entity; (ii) measure acquirer shares issued in consideration for a business combination at fair value on the acquisition date; (iii) recognize contingent consideration arrangements at their acquisition-date fair values, with subsequent changes in fair value generally reflected in earnings; (iv) with certain exceptions, recognize pre-acquisition loss and gain contingencies at their acquisition-date fair values; (v) capitalize in-process research and development ("IPR&D") assets acquired; (vi) expense, as incurred, acquisition-related transaction costs; (vii) capitalize acquisition-related restructuring costs only if the criteria in SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities , are met as of the acquisition date; and (viii) recognize changes that result from a business combination transaction in an acquirer's existing income tax valuation allowances and tax uncertainty accruals as adjustments to income tax expense. SFAS 141(R) is required to be adopted concurrently with SFAS 160 and is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company does not believe the adoption of these statements will have a material impact on significant acquisitions completed after July 1, 2009.

In April 2008, the FASB issued FSP 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). FSP 142-3 improves the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other applicable accounting literature. FSP 142-3 is effective for the Company on July 1, 2009. The Company does not believe that the adoption of FSP 142-3 will have a material effect on its financial position or results of operations.

Note 2 Significant Accounting Policies – (cont'd)

o) Recent Accounting Pronouncements - (cont'd)

Recent Accounting Pronouncements Not Yet Adopted – (cont'd)

In June 2009, the FASB issued SFAS No.168, "The 'FASB Accounting Standards Codification' and the Hierarchy of Generally Accepted Accounting Principles" ("SFAS 168"). SFAS 168 establishes the "FASB Accounting Standards Codification" ("Codification"), which officially launched July 1, 2009, to become the source of authoritative U.S. generally accepted accounting principles ("GAAP") recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. The subsequent issuances of new standards will be in the form of Accounting Standards Updates that will be included in the Codification. Generally, the Codification is not expected to change U.S. GAAP. All other accounting literature excluded from the Codification will be considered non-authoritative. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We will adopt SFAS 168 for our quarter ending September 30, 2009. The Company is currently evaluating the effect on its financial statement disclosures as all future references to authoritative accounting literature will be references in accordance with the Codification.

Note 3 Inventory

	2009	2008
Raw materials	$ 164,260	$ 223,750
Finished goods	149,742	70,229
	$ 314,002	$ 293,979

Note 4 Property, Plant and Equipment

	2009		
	Cost	Accumulated Depreciation	Net
Manufacturing equipment	$ 3,422,720	$ 907,283	$ 2,515,437
Equipment and furniture	33,194	28,664	4,530
Computer equipment	28,938	25,530	3,408
	3,484,852	961,477	2,523,375

Note 4 Property, Plant and Equipment - (cont'd)

	2009		
	Cost	Accumulated Depreciation	Net
Assets under capital lease			
Equipment	69,696	24,317	45,379
Land	54,498	-	54,498
Building	1,871,287	729,645	1,148,156
Railroad spur	94,108	39,426	54,682
	2,089,589	793,388	1,302,715
	$ 5,574,441	$ 1,754,865	$ 3,826,091

	2008		
	Cost	Accumulated Depreciation	Net
Manufacturing equipment	$ 3,415,039	$ 737,986	$ 2,677,053
Equipment and furniture	33,194	26,028	7,166
Computer equipment	28,938	23,870	5,068
	3,477,171	787,884	2,689,287
Assets under capital lease			
Equipment	69,696	17,347	52,349
Land	54,498	-	54,498
Building	1,871,287	649,850	1,221,437
Railroad spur	94,108	35,662	58,446
	2,089,589	702,859	1,386,730
	$ 5,566,760	$ 1,490,743	$ 4,076,017

Amortization of assets under capital leases included in amortization expense for the year ended June 30, 2009 was $85,147 (2008: $89,810).

During the year ended June 30, 2009, the Company recorded depreciation expense of $264,122 (2008:$ 260,335) on its property, plant and equipment. This amount is included in cost of sales in the Statement of Operations.

Note 5 Patent, Trademark and Technology Rights

	2009	2008
Trademark and technology rights – at cost	$ 1,000,000	$ 1,000,000
Patent – at cost	24,104	24,104
	1,024,104	1,024,104
Less: Accumulated amortization	(638,253)	(511,837)
Impairment provision	(113,746)	-
	$ 272,105	$ 512,267

During the year ended June 30, 2009, as a result of adverse changes in the business environment in which the Company operates and as a result of continuing operating losses, an impairment analysis was performed on its trademark and technology rights. The impairment analysis consisted of comparing the estimated undiscounted cash flows associated with these rights to their carrying value and' as a result, the Company recorded an impairment provision of $113,746 which reduced the carrying value of the rights to their fair value of $250,833. This impairment provision was determined by discounting the Company's best estimate of future cash flows associated with the trademark and technology rights over its estimated remaining useful life of 3 years as at June 30, 2009. There is significant measurement uncertainty in determining this estimate, particularly in the relation to estimated future revenue and expenses.

Note 6 Long-term Debt

	2009	2008
Revolving bank loan facility in the amount of $500,000 bearing interest at 7.5% per annum and secured by a security interest in inventory, accounts receivable, equipment and all intangibles of the Company as well as an assignment of the building lease. The balance was due on August 1, 2009.	$ 475,000	$ -
Term bank loan facility in the amount of $500,000 bearing interest at 7% per annum and secured by a second charge over the real estate. The facility is being amortized over 7 years with fixed monthly blended payments of principal and interest totalling $7,550 and has a balloon payment due July 1, 2012.	446,460	750,000
	921,460	750,000
Less: Current portion	60,863	-
	$ 860,597	$ 750,000

During the year ended June 30, 2009, the terms of the revolving bank facility were modified to include a $500,000 capital loan being amortized by the bank over a 7-year period and which is secured by building, property and equipment. Additionally, the bank provided a $500,000 credit facility as an operating line of credit from which the Company has drawn $475,000 as at June 30, 2009

Subsequent to June 30, 2009 and prior to the issuance of the financial statements, the Company renewed the terms of the revolving bank facility to extend the maturity date to August 1, 2010 and to reduce the annual interest rate to 7%. Thus, in accordance with FAS 6, *Classification of Short-Term Obligations Expected to be Refinanced*, the Company has classified the revolving bank facility as a long-term liability as at June 30, 2009.

Note 6 Long-term Debt – (cont'd)

Future principal payments required on long-term debt are as follows:

2010	$	60,863
2011		540,326
2012		70,062
2013		250,209
	$	921,460

Note 7 Obligation Under Capital Leases

Future minimum annual lease payments on the obligation under capital leases are as follows:

2010	$	75,922
2011		73,621
2012		73,621
2013		73,621
2014		73,621
2015		73,621
Thereafter		42,527
		486,554
Less: amount representing interest		(88,250)
		398,304
Less: current portion		(53,894)
Long-term portion	$	344,410

The capital leases bear interest at various rates from 4.75% to 6% per annum.

Interest on capital leases included in interest on long-term debt for the year ended June 30, 2009 was $25,469 (2008: $29,606).

Note 8 Common Stock

a) Escrow:

At June 30, 2009, there are 48,922 (2008 – 48,922) common shares held in escrow by the Company's transfer agent, the release which is subject to the approval of the regulatory authorities. As at June 30, 2009, all of these shares held in escrow are issuable but the Company has yet to request their release.

Note 8 Common Stock – (cont'd)

b) Commitments:

Stock-based Compensation Plan

In November 2005, the Company continued its rolling stock option plan ("the 2005 Rolling Plan"). The 2005 Rolling Plan provides for the granting of stock options to selected directors, officers, employees or consultants in an aggregate amount of up to 10% of the issued and outstanding common shares of the Company. Under the 2005 Rolling Plan, the granting of stock options, exercise prices and terms are determined by the Company's Board of Directors. Options granted to non-executive employees and consultants typically vest in stages over various periods of time while options granted to Directors and executive employees vest immediately upon their grant. The exercise price shall not be less than the Discounted Market Price, which is defined as the last closing price of the common shares before the date of the grant less an applicable discount, as allowed by the regulatory authorities. Options granted under the 2005 Rolling Plan may not exceed a term of 5 years unless the Company achieves classification as a "Tier 1 " issuer in accordance with the policies of the TSX, in which case, the options may be granted for a maximum term of 10 years.

A summary of the status of the Company's share purchase option plan as of June 30, 2009 and 2008 and changes during the years ending on those dates is presented below:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding, June 30, 2007	2,453,400	$0.57	$ -
Granted	740,000	$0.51	
Expired	(1,085,850)	$0.44	
Outstanding, June 30, 2008	2,107,550	$0.57	$ -
Granted	40,000	$0.05	
Expired	(149,550)	$0.55	
Forfeited	(56,250)	$0.45	
Outstanding, June 30, 2009	1,941,750	$0.56	$ 2,400
Exercisable, June 30, 2009	1,839,250	$0.57	$ 600
Exercisable, June 30, 2008	1,870,050	$0.58	$ -

Note 8 Common Stock – (cont'd)

b) Commitments – (cont'd)

Stock-based Compensation Plan – (cont'd)

The following summarizes information about share purchase options outstanding as at June 30, 2009:

Number	Exercise Price	Expiry Date	Remaining Contractual Life
986,750	$0.65	August 24, 2009	0.15 years
665,000	$0.45	January 10, 2010	0.53 years
250,000	$0.55	August 9, 2010	1.11 years
40,000	$0.05	March 7, 2011	1.68 years
1,941,750			

The weighted-average grant date fair value of options granted during the years 2009 and 2008 was $0.11 and $0.08, respectively. Subsequent to June 30, 2009, the 986,750 stock options exercisable at $0.65 until August 24, 2009 expired unexercised.

Stock-based compensation charges have been determined under the fair value method using the Black-Scholes option pricing model with the following weighted average assumptions:

	2009	2008
Expected dividend yield	0.0%	0.0%
Expected volatility	174%	146%
Risk-free interest rate	2.02%	2.71%
Expected term in years	1.61 years	1.75 years

The Company's computation of expected volatility of stock options for the years ended June 30, 2009 and 2008 is based on the historical trading activity of its common shares. The expected term of the options granted to employees is derived from the simplified method as prescribed by SEC Staff Accounting Bulletin ("SAB") No. 110 given that the Company has no historical experience with the exercise of options for which to base an estimate of the expected term of options granted. The Company anticipates it will discontinue the use of the simplified method of SAB 110 once sufficient historical option exercise behaviour becomes apparent. The expected term of options granted to non-employees was determined to be the option term. The interest rate for periods within the contractual life of the award is approximated based on the U.S. Treasury yield curve in effect at the time of grant.

Stock-based compensation amounts are classified in the Company's Statement of Operations as follows:

	2009	2008
Wages and management fees	$ 9,820	$ 47,329

Note 8 Common Stock – (cont'd)

b) Commitments – (cont'd)

Stock-based Compensation Plan – (cont'd)

A summary of changes in the Company's unvested stock options for the years ended June 30, 2009 and 2008 is presented below:

	2009		2008	
	Number of Options	Weighted Average Grant Date Fair Value	Number of Options	Weighted Average Grant Date Fair Value
Outstanding, beginning of year	237,500	$0.08	427,500	$0.08
Granted	40,000	$0.11	740,000	$0.08
Cancelled	-	-	(290,000)	-
Forfeited	(56,250)	$0.08	-	-
Vested	(118,750)	$0.07	(640,000)	$0.12
Outstanding, end of year	102,500	$0.06	237,500	$0.08

As at June 30, 2009 there was a total of $2,036 of unrecognized compensation cost associated with unvested share-based compensation awards that will become vested in the year ended June 30, 2010 and thus, this unrecognized compensation cost is expected to be recognized during the year ended June 30, 2010.

Note 9 Research and Development Costs

Research and development expense, included in cost of sales, consists of the following for the years ended June 30, 2009 and 2008.

	2009	2008
Testing services	$ 17,091	$ 144,181

Note 10 Related Party Transactions

The Company was charged the following amounts by directors or private companies with common directors during the years ended June 30, 2009 and 2008:

	2009	2008
Wages and management fees	$ 175,799	$ 180,504

Included in accounts payable and accrued liabilities is $2,937 (2008: $1,510) owing to directors of the Company.

Note 11 Income Taxes

The tax effects of the temporary differences that give rise to the Company's estimated deferred tax assets and liabilities are as follows:

	2009	2008
Net operating losses	$ 1,262,000	$ 1,116,000
Property, plant and equipment	647,000	836,000
Expenses not currently deductible	57,000	18,000
Valuation allowance	(1,966,000)	(1,970,000)
Net deferred tax assets	$ -	$ -

The provision for income taxes differ from the amount established using the statutory income tax rate as follows:

	June 30, 2009	June 30, 2008
Income tax benefit at statutory rate	$ (216,000)	$ (255,000)
Foreign income taxed at foreign statutory rate	(11,000)	(13,000)
Permanent differences	-	1,000
Expiry of losses	8,000	14,000
Effect of foreign exchange	211,000	(68,000)
Effect of reduction in tax rates	12,000	17,000
Increase (decrease) in valuation allowance	(4,000)	304,000
Deferred income tax recovery	$ -	$ -

The Company evaluates its valuation allowance requirements based on projected future operations. When circumstances change and this causes a change in management's judgment about the recoverability of future tax assets, the impact of the change on the valuation allowance is reflected in current income. As management of the Company does not currently believe that it is more likely than not that the Company will receive the benefit of this asset, a valuation allowance equal to the future tax asset has been established at both June 30, 2009 and June 30, 2008.

Note 11 Income Taxes – (cont'd)

As at June 30, 2009, the Company had net operating loss carry-forwards available to reduce taxable income in future years, which were incurred in the United States and Canada as follows:

	United States	Canada	Total
2010	$ -	$ 34,481	$ 34,481
2011	-	105,540	105,540
2015	-	145,542	145,542
2016	-	156,488	156,488
2017	277,482	-	277,482
2018	259,463	-	259,463
2019	194,101	-	194,101
2020	146,423	-	146,423
2022	207,585	-	207,585
2023	133,841	-	133,841
2024	31,912	-	31,912
2025	133,549	-	133,549
2027	331,559	188,276	519,835
2028	848,901	159,153	1,008,054
2029	413,621	169,508	583,129
	$ 2,978,437	$ 958,988	$ 3,937,325

Uncertain Tax Positions

The Company has adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the recognition and measurement of tax positions taken or expected to be taken in income tax returns. FIN 48 also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, and accounting for interest and penalties associated with tax positions.

The Company files income tax returns in the U.S. federal jurisdiction, various state and foreign jurisdictions. The Company's tax returns are subject to tax examinations by U.S. federal and state tax authorities, or examinations by foreign tax authorities until respective statue of limitation. The Company currently has no tax years under examination. The Company is subject to tax examinations by tax authorities for all taxation years commencing after 2001.

Based on the management's assessment of FIN 48, it was concluded that the adoption of FIN 48, as of July 1, 2007, had no significant impact on the Company's results of operations or financial position, and required no adjustment to the opening balance sheet accounts. The year-end analysis supports the same conclusion, and the Company does not have an accrual for uncertain tax positions as of June 30, 2009. As a result, tabular reconciliation of beginning and ending balances would not be meaningful. If interest and penalties were to be assessed, we would charge interest to interest expense, and penalties to other operating expense. It is not anticipated that unrecognized tax benefits would significantly increase or decrease within 12 months of the reporting date.

Provision has not been made for U.S. or additional foreign taxes on undistributed earnings of foreign subsidiaries. Such earnings have been and will continue to be reinvested but could become subject to additional tax if they were remitted as dividends, or were loaned to the Company affiliate. It is not practicable to determine the amount of additional tax, if any, that might be payable on the undistributed foreign earnings.

Note 12 Segmented information and sales concentration

The Company operates in one industry segment being the manufacturing and marketing of fire resistant building materials. Substantially all of the Company's revenues and long-term assets are located in the United States.

Note 13 Contingent Liability

Subsequent to June 30, 2009, the Company settled an ongoing lawsuit in which the plaintiff claimed damages for defective building materials. The negotiated settlement amount of $50,000 has been accrued in these consolidated financial statements.