INTERNATIONAL BARRIER TECHNOLOGY INC.

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Stated in US Dollars)

Tel: 604 688 5421
Fax: 604 688 5132
www.bdo.ca

BDO Canada LLP
600 Cathedral Place
925 West Georgia Street
Vancouver BC V6C 3L2 Canada

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
International Barrier Technology Inc.

We have audited the accompanying consolidated balance sheets of International Barrier Technology Inc. as of June 30, 2012 and 2011and the related consolidated statements of operations and comprehensive (loss) income, 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). Those standards require that we plan and perform the 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Barrier Technology Inc. at June 30, 2012 and 2011 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 consolidated financial statements, the Company had an accumulated deficit of $14,730,354 at June 30, 2012 and had a working capital deficit of $153,932. 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.

As discussed in Note 2 to the consolidated financial statements, effective July 1, 2011, the Company changed its accounting for employee share purchase options with the adoption of the new guidance for employee share purchase options denominated in a currency of the market in which the Company's equity securities trade.

/s/ BDO CANADA LLP

Chartered Accountants

Vancouver, Canada
September 28, 2012

INTERNATIONAL BARRIER TECHNOLOGY, INC.
CONSOLIDATED BALANCE SHEETS
June 30, 2012 and June 30, 2011
(Stated in US Dollars)

	June 30, 2012	June 30, 2011
ASSETS		
Current		
Cash and cash equivalents	$ 101,523	$ 268,742
Accounts receivable	114,881	49,825
Inventory - Note 3	242,465	230,226
Prepaid expenses and deposits	40,115	46,359
Total Current Assets	498,984	595,152
Property, plant and equipment - Note 4	3,209,061	3,387,810
Patent, trademark, and technology rights - Note 5	-	19,273
Total Assets	$ 3,708,045	$ 4,002,235
LIABILITIES		
Current		
Accounts payable and accrued liabilities	$ 495,383	$ 401,562
Customer deposits	-	19,844
Derivative liability - Notes 2, 7 and 10	-	741,357
Current portion of long term debt - Note 8	96,093	76,412
Obligation under capital leases - Note 9	61,440	57,911
Total Current Liabilities	652,916	1,297,086
Long-term debt - Note 8	371,787	339,709
Convertible debentures - Note 6	200,000	-
Obligation under capital leases - Note 9	170,466	231,907
Total Liabilities	1,395,169	1,868,702
STOCKHOLDERS' EQUITY		
Common Stock - Note 10		
Authorized: 100,000,000 common shares without par value		
Issued: 44,454,926 common shares (June 30, 2011: 44,454,926)	15,463,675	15,463,675
Additional paid-in capital	1,579,555	1,030,593
Accumulated deficit	(14,730,354)	(14,360,735)
Total Stockholders' Equity	2,312,876	2,133,533
Total Liabilities and Stockholders' Equity	$ 3,708,045	$ 4,002,235

APPROVED BY THE BOARD OF DIRECTORS

"David Corcoran" David Corcoran Director

"Victor Yates" Victor Yates Director

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY, INC.

CONSOLIDATED STATEMENT OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

June 30, 2012 and 2011

(Stated in US Dollars)

	2012	2011
Sales	$ 4,144,769	$ 3,256,019
Cost of Sales	3,886,697	3,145,931
Gross Profit	258,072	110,088
Expenses		
Accounting and audit fees	100,646	86,575
Filing Fees	15,833	22,537
Insurance	80,672	85,121
Bank charges and interest	573	441
Legal fees	36,512	62,979
Office and miscellaneous	53,110	52,382
Sales, marketing, and investor relations - Note 10	44,218	208,944
Telephone	10,975	11,011
Transfer agent fees	7,999	8,539
Wages and management fees - Notes 10 and 12	541,495	121,667
Total Administrative Expenses	892,033	660,196
Loss before other income	(633,961)	(550,108)
Foreign exchange gain (loss) and other income	(7,263)	42,215
Interest on long-term obligations	(55,234)	(49,534)
Change in fair value of derivative liability - Note 7	556,762	1,453,238
Total Other Income	494,265	1,445,919
Net income (loss) for the period	$ (139,696)	$ 895,811
Basic and diluted income (loss) per share	$ (0.00)	$ 0.02
Weighted average number of shares outstanding	44,454,926	44,426,542
Diluted weighted average number of shares outstanding	44,454,926	44,837,955

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
June 30, 2012 and 2011
(Stated in US Dollars)

	2012	2011
Operating Activities		
Net income for the year	$ (139,696)	$ 895,811
Items not involving cash:		
Depreciation - plant and equipment	295,466	272,105
Amortization - patent, trademark and technology rights	19,273	126,016
Stock-based compensation - investor relations	5,429	27,090
Stock-based compensation - wages	129,015	(331,176)
Change in fair value of derivative liability	(556,762)	(1,453,238)
Changes in non-cash working capital balances related to operations:		
Accounts receivable	(65,056)	52,273
Inventory	(12,239)	25,604
Prepaid expenses and deposits	6,244	4,501
Accounts payable and accrued liabilities	93,821	32,105
Customer deposits	(19,844)	19,844
Net cash used in operating activities	(244,349)	(329,065)
Cash Flows provided by Financing Activities		
Issuance of common shares	-	3,600
Issuance of Convertible debentures	200,000	-
Advances on bank loan facility	490,000	250,000
Repayment of bank loan facility	(181,723)	(318,277)
Repayment on long term debt	(256,872)	(71,187)
Decrease in obligations under capital lease	(57,912)	(54,593)
Net cash provided by (used in) financing activities	193,493	(190,457)
Cash Flows used in Investing Activities		
Acquisition of equipment	(116,363)	(74,857)
Net cash used in investing activities	(116,363)	(74,857)
Decrease in cash and cash equivalents during the year	(167,219)	(594,379)
Cash and cash equivalents, beginning of the year	268,742	863,121
Cash and cash equivalents, end of the year	$ 101,523	$ 268,742
Supplemental Cash Flow Information		
Cash paid for interest	$ 50,176	$ 49,534
Cash paid for income taxes	$ -	$ -

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

June 30, 2012 and 2011

(Stated in US Dollars)

	Common Stock				
	Issued Shares	Amount	Paid-in Capital	Accumulated Deficit	Total
Balance, June 30, 2010	44,414,926	15,457,697	1,012,052	(15,256,546)	1,213,203
Reclassification of derivative liability on cancellation of stock options	-	-	20,405	-	20,405
Stock-based compensation	-	-	514	-	514
Issued for exercise of stock options - at $0.09	40,000	3,600	-	-	3,600
Transferred to additional paid in capital for the exercise of stock options	-	2,378	(2,378)	-	-
Net income for the year	-	-	-	895,811	895,811
Balance, June 30, 2011	44,454,926	15,463,675	1,030,593	(14,360,735)	2,133,533
Cumulative effect of accounting change - Note 2	-	-	395,362	(229,923)	165,439
Stock-based compensation	-	-	153,600	-	153,600
Net income for the period	-	-		(139,696)	(139,696)
Balance, June 30, 2012	44,454,926	15,463,675	1,579,555	(14,730,354)	2,312,876

SEE ACCOMPANYING NOTES

Note 1 Nature of Operations and Ability to Continue as a Going Concern

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 ("GAAP") 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, 2012, the Company had not yet achieved profitable operations, had an accumulated deficit of $14,730,354 since its inception and had a working capital deficiency of $153,932, 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, 2012 and June 30, 2011, 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, derivative liability, 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:

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.

Note 2 Significant Accounting Policies – (cont'd)

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. In addition, items such as abnormal amounts of idle facility expense, freight, handling and wasted material are recognized as current period charges rather than inventory value.

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

Plant and equipment and trademark and technology rights are recorded at cost. Depreciation is provided as follows:

Manufacturing equipment	straight line over estimated useful lives ranging from 5 years to 30 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 over the shorter of the lease term or the estimated useful economic life.

e) Impairment of Long-Lived Assets

The Company reviews the recoverability of its 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.

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.

Note 2 Significant Accounting Policies – (cont'd)

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 Gain (Loss) per Share

Basic net gain per common share is calculated by dividing net gain by the weighted-average number of common shares outstanding for the period. Diluted net gain per common share includes both the weighted-average number of common shares outstanding for the period plus the potentially dilutive securities from stock options and warrants outstanding. The number of shares potentially issuable at June 30, 2012 and 2011 upon exercise or conversion of share purchase warrants and share purchase options and the conversion of convertible debentures totalled 8,230,000 and 18,930,000 respectively. These instruments were excluded from the calculation of diluted earnings per shares because their effect is anti-dilutive.

j) Fair Value Measurements

The book value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to the short term maturity of those instruments. Based on borrowing rates currently available to the Company under similar terms, the book value of long term debt, convertible debentures and capital lease obligations approximate their fair values. The fair value hierarchy under GAAP is 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:

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.

Certain of the Company's cash equivalents, consisting of short-term term deposits, are based on Level 2 inputs in the ASC 820 fair value hierarchy.

The Company's long-term debt is based on Level 2 inputs in the ASC 820 fair value hierarchy. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities , the fair value of the long-term debt is $467,880 (2011: $416,121).

The Company's convertible debentures are based on Level 2 inputs in the ASC 820 fair value hierarchy. The Company calculated the fair value of these instruments by discounting future cash flows using rates representative of current borrowing rates. At June 30, 2012, the convertible debentures had a fair value of $309,185 (2011: $Nil)

(Stated in US Dollars)

Note 2 Significant Accounting Policies – (cont'd)

j) Fair Value Measurements – (cont'd)

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). There were no assets or liabilities measured at fair value on a nonrecurring basis during the periods ended June 30, 2012 and 2011.

As at June 30, 2012, the Company's Level 3 liabilities consisted of share purchase options granted to non-employees that are exercisable in a currency other than the Company's functional currency. At June 30, 2011, the Company's Level 3 liabilities consisted of the warrants issued in connection with the Company's offering of equity units in a private placement (Note 7) as well as share purchase options granted to employees and non-employees that are exercisable in a currency other than the Company's functional currency (Note 10). During the year ended June 30, 2012, employee share purchase options that were exercisable in a currency of than the Company's functional currency were reclassified to equity upon the adoption of ASU 2010-13 effective July 1, 2011 (Note 2(o)). These Level 3 liabilities had no active market and are required to be measured at their fair value at each reporting period based on information that is unobservable.

A summary of the Company's Level 3 liabilities for the years ended June 30, 2012 and 2011 is as follows:

	Year ended June 30, 2012	Year ended June 30, 2011
Warrants		
Beginning fair value	$ 556,762	$ 2,010,000
Change in fair value	(556,762)	(1,453,238)
Ending fair value	$ -	$ 556,762
Non-employee options		
Beginning fair value	$ 19,156	$ 40,600
Issuance	-	10,745
Transfers in	-	27,031
Transfers out	-	(20,405)
Change in fair value	(19,156)	(38,815)
Ending fair value	-	19,156
Total Level 3 Liabilities	$ -	$ 575,918

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 for doubtful accounts against its accounts receivable in each of the years ended June 30, 2012 or June 30, 2011.

Currency Risk

The Company holds cash of $57,190 (2010 $276,225) in Canadian dollars exposing it to a foreign currency exchange risk. During the year ended June 30, 2012, the Company realized a foreign exchange loss of $8,531 (2011: foreign exchange gain of $37,919) as a result of the Company holding cash in Canadian dollars.

l) Revenue Recognition

The Company recognizes revenue in accordance with Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 605, "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) collection is reasonably assured. The Company recognizes revenue when the building supplies have been shipped.

The Company also recognizes revenue on a "bill-and-hold" basis in accordance with the authoritative guidance. Under the Company's "bill-and-hold" arrangements, at the request of the customer, finished inventory is segregated for future delivery at the customer's discretion. Title and risk of loss of the inventory has passed to the customer upon segregation, at which time the Company receives payment from the customer and recognizes revenue thereon.

m) Income Taxes

The Company follows the liability method of accounting for income taxes. 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.

Note 2 Significant Accounting Policies – (cont'd)

n) 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 capital surplus. 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. Share purchase options granted to employees are accounted for as liabilities when they contain conditions or other features that are indexed to other than a market, performance or service condition.

The Company uses the Black-Scholes option pricing model to calculate the fair value of share purchase options. 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) Derivative Liabilities

ASC 815, "Derivatives and Hedging" requires free standing warrants and share purchase options classified as liabilities to be measured at fair value. These instruments are adjusted to reflect fair value at each period end. Any increase or decrease in the fair value are recorded in results of operations as change in fair value of derivative liabilities or as an expense relating to the services provided. In determining the appropriate fair value, the Company used the binomial option pricing model.

Note 2 Significant Accounting Policies – (cont'd)

p) Recent Accounting Pronouncements and Change in Accounting Policy

Recently Adopted Accounting Pronouncements

In April, 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2010-13 ("ASU 2010-13") *"Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades"*. ASU 2010-13 clarifies that an employee share-based payment award with an exercise price denominated in currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance or service condition. Therefore, such awards would not be classified as liabilities if they otherwise qualify as equity. ASU 2010-13 became effective for fiscal years commencing after December 15, 2010 with early adoption permitted. Thus, this guidance became effective for the Company commencing July 1, 2011 as the Company had chosen not to early adopt these provisions.

The Company's outstanding employee share-purchase options have an exercise price denominated in Canadian dollars whereas the functional currency for the Company's operations is the US dollar. Prior to the adoption of ASU 2010-13, the Company recorded and classified these instruments as a liability in accordance with the provisions of Topic 718 because they were indexed to a factor that was considered to be other than a market, performance or service condition. However, given that a substantial number of the Company's shares trade in each of Canada and the United States, effective July 1, 2011, the Company's employee share purchase options have been recorded and classified as equity instruments.

The transition provisions of ASU 2010-13 require a cumulative effect adjustment as of July 1, 2011 to reflect the amounts that would have been recorded and recognized if the guidance of ASU 2010-13 had been applied consistently since the inception of the awards outstanding at July 1, 2011.

The cumulative effect of this change in accounting principle of $165,439 was to recognize an increase of additional paid-in capital of $395,362 representing the fair value of the employee options on their respective grant dates and record a charge to accumulated deficit of $229,923. In addition, the Company reversed the fair value of the derivative liability previously associated with the employee share-purchase options on July 1, 2011 in the amount of $165,439. Also, in accordance with the disclosure requirements of ASC 250-10, the effect of this change in accounting principle in the current year statement of operations and comprehensive (loss) income was for an increased loss of $165,439, being the gain resulting from the change of fair value in derivative liability that would have been recognized under the prior accounting principle. There is no change in basic and diluted income (loss) per share as a result of applying this change in accounting principle.

	Warrants	Non-Employee Options	Employee Options	Total
Balance, June 30, 2011	$ 556,762	$ 19,156	$ 165,439	$ 741,357
Cumulative effect of adopting ASU 2010-13	-	-	(165,439)	(165,439)
Change in fair value	(556,762)	(19,156)	-	(575,918)
Balance, June 30, 2012	$ -	$ -	$ -	$ -

(Stated in US Dollars)

Note 2 Significant Accounting Policies – (cont'd)

p) Recent Accounting Pronouncements and Change in Accounting Policy – (cont'd)

Accounting Standards Not Yet Effective

In June 2011, the FASB issued Accounting Standards Update 2011-05, "Presentation of Comprehensive Income (Topic 220)". The objective of this Update is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS), the FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity, among other amendments in this Update. The amendments require that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in this Update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is currently evaluating the impact of this update on the consolidated financial statements.

In December 2011, the FASB issued Accounting Standards Update 2011-12, "Comprehensive Income (Topic 220)". The amendments in this Update supersede certain pending paragraphs in Accounting Standards Update 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, to effectively defer only those changes in Update 2011—5 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is currently evaluating the impact of this update on the consolidated financial statements.

Note 3 Inventory

	June 30, 2012	June 30, 2011
Raw materials	$ 189,028	$ 153,369
Finished goods	53,437	76,857
Total Inventory	$ 242,465	$ 230,226

(Stated in US Dollars)

Note 4 Property, Plant and Equipment

	2012 Cost	2012 Accumulated Depreciation	2012 Net
Manufacturing Equipment	$ 3,634,499	$ 1,444,381	$ 2,190,118
Equipment and Furniture	33,194	33,194	-
Computer Equipment	30,032	30,032	-
Subtotal Equipment	3,697,725	1,507,607	2,190,118

Assets under Capital Lease	2012 Cost	2012 Accumulated Depreciation	2012 Net
Equipment	69,696	44,529	25,167
Land	54,498	0	54,498
Building	1,877,801	983,783	894,018
Railroad Spur	94,108	48,848	45,260
Subtotal Assets under Capital Lease	2,096,103	1,077,160	1,018,943
Total Property, Plant and Equipment	$ 5,793,828	$ 2,584,767	$ 3,209,061

	2011 Cost	2011 Accumulated Depreciation	2011 Net
Manufacturing Equipment	$ 3,518,136	$ 1,252,225	$ 2,265,911
Equipment and Furniture	33,194	32,768	426
Computer Equipment	30,032	29,570	462
Subtotal Equipment	3,581,362	1,314,563	2,266,799

Assets under Capital Lease	2011 Cost	2011 Accumulated Depreciation	2011 Net
Equipment	69,696	38,237	31,459
Land	54,498	0	54,498
Building	1,877,801	889,893	987,908
Railroad Spur	94,108	46,962	47,146
Subtotal Assets under Capital Lease	2,096,103	975,092	1,121,011
Total Property, Plant and Equipment	$ 5,677,465	$ 2,289,655	$ 3,387,810

During the year ended June 30, 2012, the Company recorded depreciation expense of $295,466 (2011: $272,105) on its property, plant and equipment. This amount is included in cost of sales in the Statement of Operations

Depreciation of assets under capital leases included in amortization expense for the year ended June 30, 2012 was $102,068 (2011: $90,852).

(Stated in US Dollars)

Note 5 Patent, Trademark and Technology Rights

	2012	2011
Trademark and Technology Rights - at cost	$ 1,000,000	$ 1,000,000
Patent - at cost	24,104	24,104
Subtotal Patent, Trademark and Technology Rights at Cost	1,024,104	1,024,104
Less Accumulated Amortization	(910,358)	(891,085)
Impairment Provision	(113,746)	(113,746)
Total Patent, Trademark and Technology Rights	$ -	$ 19,273

Note 6 Convertible Debentures

During the year ended June 30, 2012, the Company approved the issuance of two convertible promissory debentures to a director and a company controlled by a director in the amount of $300,000. The debentures are being issued in tranches of $50,000 and as at June 30, 2012 the Company had received $200,000 in respect of these debentures. The debentures bear interest at 12% per annum, payable monthly, and are collateralized by a third charge over the Company's plant and equipment as well as a charge against the Company's patents. At any time, the notes are convertible into units of the Company at a price of $0.10 per unit. Each unit will consist of one common share and one common share purchase warrant entitling the holder the right to purchase one additional share for $0.10 for a period of two years from the conversion date.

Note 7 Warrant Liability

During the year ended June 30, 2010, the Company sold 15,000,000 units at $ 0.10 CDN per unit for total proceeds of $1,482,974 ($1,500,000 CDN). Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase an additional common share at $CDN 0.15 for a period of two years. Upon the adoption of the guidance in ASC 815-40-15 which became effective for the fiscal year that commenced July 1, 2009, the Company recorded the warrants issued as derivative liabilities due to their exercise price being denominated in a currency other than the Company's US dollar functional currency.

The warrant liability was re-valued at the end of each reporting period with the change in fair value of the derivative liability recorded as a gain or loss in the Company's Consolidated Statements of Operations. The warrant liability was accounted for at its fair value as follows:

	June 30, 2012	June 30, 2011
Beginning Fair Value	$ 566,762	$ 2,010,000
Change in Fair Value	(566,762)	(1,453,238)
Ending Fair Value	$ -	$ 556,762

The warrants expired during the year ended June 30, 2012.

The Company used the binomial option pricing model to estimate the fair value of the warrants at June 30, 2011 using the following assumptions:

	June 30, 2012	June 30, 2011
Expected life (years)	-	0.72
Risk-free interest rate	-	0.19%
Expected volatility	-	146.29%
Expected dividend yield	-	0.00%

(Stated in US Dollars)

Note 8 Long-term Debt

	June 30, 2012	June 30, 2011
Revolving bank loan facility in the amount of $250,000 bearing interest at 6.75% per annum and collateralized 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 September 1, 2012	$ -	$ 181,723
Term bank loan facility in the amount of $500,000 bearing interest at 7% annum and collateralized 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 totaling $7,550 and has a balloon payment due July 1, 2012.	-	234,398
Revolving promissory note in the amount of $50,000 bearing interest at 6.25% per annum and is unsecured. Monthly interest payments are due beginning on February 1, 2012. The promissory note is repayable on demand, but if no demand for repayment is made, on February 1, 2013. The Company has drawn $40,000 on this promissory note at June 30, 2012	40,000	-
Term bank loan facility in the amount of $450,000 bearing interest at 6.25% and collateralized 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 facility is being amortized over 4 years with fixed monthly blended payments of principal and interest totaling $6,800 with a balloon payment due on January 1, 2016	427,880	-
Subtotal including Current Portion	467,880	416,121
Less: current portion	(96,093)	(76,412)
Total Long-Term Debt	$ 371,787	$ 339,709

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

2013	$ 96,093
2014	59,752
2015	63,650
2016	248,385
Total Future Long-Term Debt Pricincipal Payments	$ 467,880

(Stated in US Dollars)

Note 9 Obligation under Capital Leases

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

2013	$	73,621
2014		73,621
2015		73,621
2016		36,812
Thereafter		-
Subtotal Including Interest		257,675
Less: amount representing interest		(25,769)
Subtotal Including Current Portion		231,906
Less: current portion		(61,440)
Long-term portion	$	170,466

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, 2012 was $15,710 (2011: $16,996).

Note 10 Common Stock

a) Escrow:

At June 30, 2012, there are 48,922 (2011 – 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, 2012, all of these shares held in escrow are issuable but the Company has yet to request their release. These shares have been included in the computation of net loss per share.

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, 2012 and 2011 and changes during the years ending on those dates is presented below:

(Stated in US Dollars)

Note 10 Common Stock – (cont'd)

b) Commitments: - (cont'd)

Stock-based Compensation Plan – (cont'd)

	Number of Shares	Weighted Average Exercise Price		Aggregate Intrinsic Value
Outstanding, June 30, 2010	4,330,000	$0.12		$ 293,553
Granted	390,000	$0.14	CDN	-
Exercised	(40,000)	$0.09		-
Expired	(250,000)	$0.55		-
Forfeited	(500,000)	$0.14	CDN	-
Outstanding, June 30, 2011	3,930,000	$0.12	CDN	$ -
Granted	3,840,000	$0.10		-
Expired	(3,540,000)	$0.12	CDN	-
Forfeited	-	-		-
Outstanding, June 30, 2012	4,230,000	$0.10		$ -
Exercisable, June 30, 2012	4,230,000	$0.10		
Exercisable, June 30, 2011	3,890,000	$0.12	CDN	

The following summarizes information about share purchase options outstanding as at June 30, 2012:

Number	Exercise Price		Expiry Date	Remaining Contractual Life
350,000	$0.15	CDN	October 29, 2012	0.33 years
40,000	$0.06	CDN	June 10, 2013	0.95 years
3,840,000	$0.10		May 15, 2015	2.87 years
4,230,000				

The weighted-average grant date fair value of options granted during the years 2012 and 2011 was $0.04 and $0.10 respectively.

Employee Share Purchase Options

During the year ended June 30, 2012, the Company granted a total of 3,840,000 share purchase options to various directors, employees and consultants exercisable at $0.10 per share until May 15, 2015. These options were fully vested at the date of issuance. The fair value of these options was determined to be $153,600, which was recognized in the statement of operations for the year ended June 30, 2012.

The fair value of the stock options granted was determined using the Black Scholes option pricing model using the following assumptions: expected dividend yield: 0.00%, expected volatility: 116.48%, risk-free interest rate: 0.38%, expected term: 3.00 years.

(Stated in US Dollars)

Note 10 Common Stock – (cont'd)

b) Commitments: - (cont'd)

Stock-based Compensation Plan – (cont'd)
At June 30, 2011, employee share options exercisable in a currency that was not the functional currency of the Company were required to be classified as liabilities and were required to be re-valued at each reporting period with the change in fair value of the liability included in Wages and Management fees in the Company's Consolidated Statements of Operations. Upon the adoption of ASU 2010-13 effective July 1, 2012 (Note 2), these employee share purchase options are no longer required to be classified as liabilities.

Stock-based compensation charges relating to employee share purchase options during the year ended June 30, 2011 were determined under the fair value method using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield: 0.00%, expected volatility: 151.61%, risk-free interest rate: 0.35%, expected term: 2.00 years.

The employee share purchase option liabilities accounted for at their respective fair values and are summarized as follows:

	2012	2011
Fair value of employee options accounted for as liabilities, beginning of the year	$ 165,439	$ 469,000
Cumulative effect of change in accounting policy on July 1, 2011 - Note 2	(165,439)	-
Fair value of employee options, at issuance	-	26,864
Change in fair value of employee options accounted for as liabilities during the year	-	(330,425)
Fair value of employee options accounted for as liabilities, end of the year	$ -	$ 165,439

Non-Employee Share Purchase Options

In accordance with the guidance of ASC 815-40-15, stock options granted to non-employees with exercise prices that are not denominated in the functional currency of the Company are determined not to be indexed to the Company's stock and are required to be accounted for as derivative liabilities in accordance with ASC 815 "Derivatives and Hedging".

The non-employee share purchase option liabilities are accounted for at their respective fair values and are summarized as follows:

	2012	2011
Fair value of non-employee options, beginning of the year	$ 19,156	$ 40,600
Fair value of non-employee options, at issuance	-	10,745
Fair value of non-employee options vested during the year	-	27,031
Reclassification of cancelled non-employee stock options to additional paid-in capital	-	(20,405)
Change in fair value of non-employee options during the year	(19,156)	(38,815)
Fair value of non-employee options, end of the year	$ -	$ 19,156

(Stated in US Dollars)

The non-employee options were required to be re-valued with the change in fair value of the liability recorded as a gain or loss on the change of fair value of derivative liability and included in other items in the Company's Consolidated Statements of Operations at the end of each reporting period. The fair value of the options will continue to be classified as a liability until such time as they are exercised, expire or there is an amendment to the respective agreements that renders these financial instruments to be no longer classified as a liability. At June 30, 2012 the 140,000 remaining non-employee options required to be classified as a liability had $Nil value.

Stock based compensation amounts are classified in the Company's Statement of operations and comprehensive (loss) income as follows:

	2012	2011
Investor Relations	$ 5,430	$ 27,090
Wages and management fees	129,014	(331,176)
Total Stock-Based Compensation	$ 134,444	$ (304,086)

A summary of changes in the Company's unvested stock options for the years ended June 30, 2012 and 2011 is presented below:

	2012		2011	
	Number of Options	Weighted Average Grant Date Fair Value	Number of Options	Weighted Average Grant Date Fair Value
Unvested, beginning of year	40,000	$0.08	410,000	$0.13
Granted	3,840,000	$0.03	390,000	$0.10
Expired	-		(200,000)	$0.13
Forfeited	-		-	
Vested	(3,880,000)	$ 0.03	(560,000)	$0.12
Unvested, end of year	-		40,000	$0.08

Note 11 Research and Development Costs

Research and development expense, included in cost of sales, consists of the following for the years ended June 30, 2012 and 2011.

	2012	2011
Testing Services	$ 31,625	$ 30,962

Note 12 Related Party Transactions

The Company was charged the following amounts by directors or private companies with common directors during the years ended June 30, 2012 and 2011:

	2012	2011
Wages and management fees	$ 278,363	$ 186,793

(Stated in US Dollars)

Note 13 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:

	2012	2011
Net operating losses	$ 1,944,000	$ 1,885,000
Property, plant and equipment	(69,000)	(52,000)
Expenses not currently deductible	17,000	26,000
Research and development	37,000	-
Valuation allowance	(1,929,000)	(1,859,000)
Net deferred tax assets	$ -	$ -

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

	June 30, 2012	June 30, 2011
Income tax expense (benefit) at statutory rate	$ (35,600)	$ 246,000
Foreign income taxed at foreign statutory rate	(23,100)	(43,000)
Change in fair value of derivative liability	(141,600)	(400,000)
Stock-based compensation	34,300	(82,000)
Effect of foreign exchange and other	94,600	(79,000)
Effect of reduction in tax rates	1,400	7,000
Increase in valuation allowance	70,000	351,000
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, 2012 and June 30, 2011.

(Stated in US Dollars)

Note 13 Income Taxes – (cont'd)

As at June 30, 2012, the Company had estimated 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
2014	$ -	$ 79,000	$ 79,000
2015	-	164,000	164,000
2017	277,000	-	277,000
2018	259,000	-	259,000
2019	194,000	-	194,000
2020	146,000	-	146,000
2021	208,000	-	208,000
2022	134,000	-	134,000
2023	32,000	-	32,000
2024	134,000	-	134,000
2026	-	176,000	176,000
2027	331,000	212,000	543,000
2028	848,000	179,000	1,027,000
2029	493,000	182,000	675,000
2030	774,000	150,000	924,000
2031	354,000	108,000	462,000
2032	289,000	252,000	541,000
Total Net Operating Loss Carry-Forwards	$ 4,473,000	$ 1,502,000	$ 5,975,000

Uncertain Tax Positions

The Company has adopted certain provisions of ASC 740, "Income Taxes", which 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. The provisions also provide guidance on the 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 statute 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 2003.

At June 30, 2012, the Company does not have an accrual relating to uncertain tax positions. 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 14 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.

The Company sells LP® FlameBlock Fire-Rated OSB Sheathing to LP® Building Products ("LP") and sales to LP accounted for 61% of Fiscal 2012 revenues. Barrier sells MuleHide FR Deck Panel to MuleHide Products ("MuleHide"), Inc. and sales to MuleHide accounted for 38% of Fiscal 2012 revenues. In 2011, sales to LP accounted for 26% of sales revenues and MuleHide accounted for 72%. The amounts receivable from each of these customers at June 30, 2012 is $89,936 and $17,662 respectively (2011: $Nil and $43,261 respectively).

The loss of either of these customers or the curtailment of purchases by such customers could have material adverse effects on the Company's financial condition and results of operations.

Note 15 Comparative Figures

Certain comparative figures have been reclassified to be consistent with the current year presentation.