

**INTERNATIONAL BARRIER TECHNOLOGY INC.**

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017 and 2016

(Stated in US Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of International Barrier Technology Inc.

We have audited the accompanying consolidated balance sheet of International Barrier Technology Inc. as of June 30, 2017 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance 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 audit 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2017 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*/s/ DMCL LLP*

DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada  
September 28, 2017



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

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## Report of Independent Registered Public Accounting Firm

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Board of Directors and Stockholders  
International Barrier Technology Inc.

We have audited the accompanying consolidated balance sheet of International Barrier Technology Inc. as of June 30, 2016 and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 audit 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 audit provides 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, 2016 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/S/ BDO CANADA LLP

Chartered Professional Accountants  
Vancouver, Canada

September 28, 2016

**INTERNATIONAL BARRIER TECHNOLOGY, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
June 30, 2017 and June 30, 2016  
(Stated in US Dollars)

<u><b>ASSETS</b></u>	June 30, 2017	June 30, 2016
Current		
Cash and cash equivalents	\$ 1,076,841	\$ 928,940
Accounts receivable	246,253	570,266
Inventory - Note 3	988,725	673,868
Prepaid expenses and deposits	47,230	66,011
Total Current Assets	2,359,049	2,239,085
Property, plant and equipment - Note 4	3,438,946	3,218,832
Deferred income taxes – Note 8	54,000	-
Total Assets	<u>\$ 5,851,995</u>	<u>\$ 5,457,917</u>
 <u><b>LIABILITIES</b></u> 		
Current		
Accounts payable and accrued liabilities	\$ 515,958	\$ 860,697
Obligation under capital leases	-	13,151
Deferred revenue	-	50,000
Convertible debentures - Note 5	-	240,000
Total Current Liabilities	515,958	1,163,848
Deferred income taxes – Note 8	-	8,000
Obligation under capital leases	-	26,989
Total Liabilities	<u>515,958</u>	<u>1,198,837</u>
 <u><b>STOCKHOLDERS' EQUITY</b></u> 		
Common Stock - Note 6		
Authorized:		
Unlimited common shares without par value		
Issued:		
53,684,926 common shares (June 30, 2016: 47,807,426)	16,584,133	15,934,256
Additional paid-in capital	1,443,924	1,509,283
Accumulated deficit	(12,692,020)	(13,184,459)
Total Stockholders' Equity	<u>5,336,037</u>	<u>4,259,080</u>
Total Liabilities and Stockholders' Equity	<u>\$ 5,851,995</u>	<u>\$ 5,457,917</u>

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**  
June 30, 2017 and 2016  
(Stated in US Dollars)

	June 30,	
	2017	2016
Sales - Note 9	\$ 9,155,528	\$ 9,527,052
License Fee and Royalty Income	248,204	87,500
Cost of Sales	<u>7,955,411</u>	<u>8,186,797</u>
Gross Profit	<u>1,448,321</u>	<u>1,427,755</u>
Expenses		
Accounting and audit fees	91,704	86,498
Filing Fees	26,632	27,566
Insurance	101,356	87,082
Bank charges and interest	232	193
Legal fees	34,277	57,813
Office and miscellaneous	82,973	69,599
Sales, marketing, and investor relations	36,962	34,481
Telephone	10,148	11,408
Transfer agent fees	4,368	3,406
Wages and management fees	<u>597,555</u>	<u>705,210</u>
Total Administrative Expenses	<u>986,207</u>	<u>1,083,256</u>
Operating Income	<u>462,114</u>	<u>344,499</u>
Other income	1,960	12,256
Interest on long-term obligations	<u>(17,753)</u>	<u>(31,750)</u>
Total Other Expense	<u>(15,793)</u>	<u>(19,494)</u>
Net income before taxes	<u>446,321</u>	<u>325,005</u>
Provision for income taxes – Note 8		
Current	(15,882)	-
Deferred	<u>62,000</u>	<u>(8,000)</u>
Total income tax expense	<u>46,118</u>	<u>(8,000)</u>
Net income for the year	<u>\$ 492,439</u>	<u>\$ 317,005</u>
Basic and diluted income per share	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Weighted average number of shares outstanding:		
Basic	<u>50,290,871</u>	<u>47,807,426</u>
Diluted	<u>50,290,871</u>	<u>52,308,274</u>

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
June 30, 2017 and 2016  
(Stated in US Dollars)

	June 30,	
	2017	2016
<b>Operating Activities</b>		
Net income for the year	\$ 492,439	\$ 317,005
Items not involving cash:		-
Deferred income tax expense (recovery)	(62,000)	8,000
Depreciation - plant and equipment	287,422	342,734
Changes in non-cash working capital balances related to operations:		
Accounts receivable	324,013	(164,407)
Inventory	(314,857)	(33,649)
Prepaid expenses and deposits	18,781	(6,132)
Accounts payable and accrued liabilities	(344,739)	206,766
Deferred Revenue	(50,000)	50,000
	351,059	720,317
<b>Cash Flows provided by (used) in Financing Activities</b>		
Issuance of Common Shares	344,518	-
Decrease in obligations under capital lease	(40,140)	(48,739)
Net cash provided by (used in) financing activities	304,378	(48,739)
<b>Cash Flows used in Investing Activities</b>		
Acquisition of equipment	(507,536)	(547,090)
Net cash used in investing activities	(507,536)	(547,090)
Increase in cash and cash equivalents during the period	147,901	124,488
Cash and cash equivalents, beginning of the period	928,940	804,452
Cash and cash equivalents, end of the period	\$ 1,076,841	\$ 928,940
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest	\$ 17,753	\$ 31,750
Cash paid for income taxes	\$ 15,882	\$ 1,800

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
June 30, 2017 and 2016  
(Stated in US Dollars)

	Common Stock				Total
	Issued Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	
Balance, June 30, 2015	47,807,426	15,934,256	1,509,283	(13,501,464)	3,942,075
Net income for the year	-	-	-	317,005	317,005
Balance, June 30, 2016	47,807,426	15,934,256	1,509,283	(13,184,459)	4,259,080
Exercise of options (at \$0.097)	1,077,500	104,518	-	-	104,518
Fair value of stock options exercised	-	65,359	(65,359)	-	-
Conversion of convertible debenture	2,400,000	240,000	-	-	240,000
Exercise of warrants (at \$0.10)	2,400,000	240,000	-	-	240,000
Net Income for the year	-	-	-	492,439	492,439
Balance, June 30, 2017	53,684,926	\$ 16,584,133	\$ 1,443,924	\$ (12,692,020)	\$ 5,336,037

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2017 and 2016  
(Stated in US Dollars)

Note 1      Nature of Operations

The Company develops and manufactures proprietary fire resistant building materials 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. All of the Company's revenues and substantially all of the long-term assets are located in the United States. There are minimal long-term assets held in Canada.

The Company was incorporated under the British Columbia Company Act and is publicly traded on the TSX Venture Exchange ("TSX-V") in Canada and the OTC Bulletin Board 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 ("US GAAP") 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. ("the Company") and its wholly-owned subsidiaries, Pyrotite Coatings of Canada Inc., a Canadian company and Barrier Technology Corporation ("Barrier"), a US company. All inter-company transactions and balances have been eliminated on consolidation.

b)    Cash and Cash Equivalents

The Company considers highly liquid investments with insignificant interest rate risk and an original maturity of three months or less on the purchase date to be cash equivalents.

c)    Inventory

Inventory is valued 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 waste material are recognized as current period charges rather than in inventory value.



Note 2      Significant Accounting Policies – (cont'd)

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
Railroad spur	4% - declining balance
Equipment under capital lease	20% - declining balance
Building under capital lease	straight line over 20 years

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.

g) Foreign Currency Translation

The functional currency for the Company's operations is the U.S.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.

Note 2      Significant Accounting Policies – (cont'd)

h) Research and Development Costs

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

i) Basic and Diluted Income (Loss) per Share

Earnings or loss per share (“EPS”) is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income (loss) by the weighted-average number of all potentially dilutive shares of common stock that were outstanding during the periods presented. There were no potentially dilutive equity instruments outstanding at June 30, 2017 (June 30, 2016: - 5,877,500)

The treasury stock method is used in calculating diluted EPS for potentially dilutive stock options and share purchase warrants, which assumes that any proceeds received from the exercise of in-the-money stock options and share purchase warrants, would be used to purchase common shares at the average market price for the period.

EPS for convertible debt is calculated under the “if-converted” method. Under the if converted method, EPS is calculated as the more dilutive of EPS (i) including all interest (both cash interest and non-cash discount amortization) and excluding all shares underlying the Company’s convertible debentures or; (ii) excluding all interest and costs directly related to the convertible debt (both cash interest and non-cash discount amortization) and including all shares underlying the convertible debt. During the year ended June 30, 2016, diluted EPS was calculated by excluding interest related to the convertible debentures and including the shares underlying their conversion.

The basic and diluted income per share for the years ended June 30, 2017 and June 30, 2016 were calculated as follows:

	<u>2017</u>	<u>2016</u>
Basic		
Numerator		
Net income	\$ <u>492,439</u>	\$ <u>317,005</u>
Denominator		
Weighted average common shares outstanding	<u>50,290,871</u>	<u>47,807,426</u>
Basic net income per share	\$ <u><u>0.01</u></u>	\$ <u><u>0.01</u></u>
Diluted		
Numerator		
Net income	\$ 492,439	\$ 317,005
Convertible debt interest	-	28,800
Net income for diluted income per share calculation	\$ <u>492,439</u>	\$ <u>345,805</u>
Denominator		
Weighted average common shares outstanding	50,290,871	47,807,426
Potential share issuances		
Common share options	-	659,860
Common share warrants	-	1,440,988
Convertible debenture conversion	-	2,400,000
Weighted average diluted common shares outstanding	<u>50,290,871</u>	<u>52,308,274</u>
Diluted net income per share	\$ <u><u>0.01</u></u>	\$ <u><u>0.01</u></u>

j) Fair Value Measurements

The book value of cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to the short term maturity of those instruments. At June 30, 2016, based on borrowing rates that were available to the Company under similar terms, the book value of capital lease obligations approximated their fair value. The fair value hierarchy under US 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.

During the year, the convertible debentures were converted to equity units at a conversion price of \$0.10 per equity unit (Notes 5 and 6). At June 30, 2016, the convertible debentures had a fair value of \$729,323.

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, 2017 and 2016.

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 ability to collect 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, 2017 and June 30, 2016.

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.

Revenue for LP® FlameBlock Fire-Rated OSB Sheathing includes only the charges for treatment services, not the underlying OSB substrate or outbound freight as the customer supplies its own OSB Substrate and contracts for its own outgoing freight.

Significant Accounting Policies – (cont'd)l) Revenue Recognition – (cont'd)

The Company periodically enters into arrangements that contain multiple deliverable elements requiring an evaluation of each deliverable to determine whether it represents a separate unit of accounting. Each delivered item constitutes a separate unit of accounting when it has stand-alone value to the customer obligating the Company to determine a selling price for each deliverable.

*License Fees*

Revenue from up-front license fees and milestones payments is recognized as performance occurs and the respective obligations are completed. Prior to the completion of performance obligations, up-front payments are recorded as deferred revenue.

*Royalty Revenue*

Royalty revenue from sales of products is generally recognized when received or earned in accordance with the terms of the license fee agreements.

License fees are recognized as earned in accordance with the terms of the agreement when the license fees can be reasonably estimated and collectability is reasonably assured.

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. Deferred tax assets and deferred tax liabilities, along with any associated valuation allowance, are offset and shown in the financial statements as a single noncurrent amount when these items arise within the same tax jurisdiction.

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, 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.

Note 2      Significant Accounting Policies – (cont'd)

n) Stock-based Compensation – (cont'd)

The Company uses the Black-Scholes Option Pricing Model to calculate the fair value of share purchase options and the Binomial Option Pricing Model to determine the fair value of all stock based awards classified as liabilities. 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) Recently Issued Accounting Pronouncements

In May 2014 and May 2016, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* and ASU 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*, respectively. These updates clarify the principles for recognizing revenue and develop a common revenue standard for US GAAP and International Financial Reporting Standards. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The effective date of ASU 2014-09 and ASU 2016-12 will be for annual periods, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is permitted for periods beginning after December 15, 2016. The Company is currently evaluating the impact that the implementation of this standard will have on the financial statements and footnote disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This guidance will be effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the impact that the implementation of this standard will have on the financial statements and footnote disclosures.

Note 3      Inventory

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Raw materials	\$ 375,046	\$ 396,271
Finished goods	<u>613,679</u>	<u>277,597</u>
	<u>\$ 988,725</u>	<u>\$ 673,868</u>

Note 4 Property, Plant and Equipment

	June 30, 2017		
	Cost	Accumulated Depreciation	Net
Manufacturing Equipment	\$ 4,451,378	\$ 2,441,625	\$ 2,009,753
Equipment and Furniture	47,801	35,297	12,504
Computer Equipment	30,032	30,032	-
Equipment	206,442	102,292	104,150
Land	54,498	-	54,498
Building	2,728,164	1,497,522	1,230,642
Railroad Spur	94,108	66,709	27,399
<b>Total Equipment and Property</b>	<b>\$ 7,612,423</b>	<b>\$ 4,173,477</b>	<b>\$ 3,438,946</b>

	June 30, 2016		
	Cost	Accumulated Depreciation	Net
Manufacturing Equipment	\$ 4,193,670	\$ 2,297,732	\$ 1,895,938
Equipment and Furniture	44,110	33,480	10,630
Computer Equipment	30,032	30,032	-
Equipment	93,290	72,252	21,038
Land	54,498	-	54,498
Building	2,521,963	1,371,588	1,150,375
Railroad Spur	94,108	62,941	31,167
<b>Subtotal Equipment and Property</b>	<b>\$ 7,031,671</b>	<b>\$ 3,868,025</b>	<b>\$ 3,163,646</b>

Assets under Capital Lease

	\$	\$	\$
Equipment	73,216	18,030	55,186
<b>Subtotal Assets under Capital Lease</b>	<b>73,216</b>	<b>18,030</b>	<b>55,186</b>
<b>Total Property, Plant and Equipment</b>	<b>\$ 7,104,887</b>	<b>\$ 3,886,055</b>	<b>\$ 3,218,832</b>

During the year ended June 30, 2017, the Company recorded depreciation expense of \$287,422 (2016: \$342,734) on its property, plant and equipment. This amount is included in cost of sales in the Statement of Operations.

Note 5 Convertible Debenture

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 bore interest at 12% per annum, payable quarterly, and were 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 were convertible into units of the Company at a price of \$0.10 per unit. Each unit consisted 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. On January 20, 2017, the convertible debentures were converted to 2,400,000 shares and the corresponding warrants were also exercised for 2,400,000 shares (Note 6). During the year, the Company incurred interest charges of \$15,948 (2016: \$28,800) on these convertible debentures.

Common Stock

## a) Equity Transactions

On August 2, 2016, the Company issued 1,077,500 common shares pursuant to the exercise of options at an exercise price of \$0.097 per share.

On January 20, 2017, the Company issued 2,400,000 equity units pursuant to the conversion of convertible debentures totalling \$240,000 at the contracted conversion price of \$0.10 per equity unit. Each unit consisted of one common share and one common share purchase warrant exercisable at \$0.10 for a period of two years.

On January 20, 2017, the Company issued 2,400,000 common shares pursuant to the exercise of 2,400,000 share purchase warrants at an exercise price of \$0.10 per warrant for total proceeds of \$240,000.

## b) Escrow:

At June 30, 2017, there are 48,922 (2016 – 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. Subsequent to June 30, 2017, all of these shares held in escrow were released by the Company.

## c) 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, 2017 and 2016 and changes during the years ending on those dates is presented below:

	Number of Shares	Weighted Average Exercise Price
Outstanding and Exercisable, June 30, 2016	1,077,500	\$ 0.097
Exercised	(1,077,500)	\$ 0.097
Outstanding and Exercisable, June 30, 2017	<u>-</u>	<u>\$ -</u>

At June 30, 2017, the Company has no outstanding options.

Note 7 Research and Development Costs

Research and development expense, included in cost of sales, consists of the following for the years ended June 30, 2017 and 2016.

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Testing Services	\$ 26,351	\$ 41,644

Note 8 Income Taxes

For financial reporting purposes, income from operations before taxes includes the following:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
U.S.	\$ 509,960	\$ 673,694
Non U.S.	(63,639)	(348,689)
	<u>\$ 446,321</u>	<u>\$ 325,005</u>

The components of income tax benefit (provision) are as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Current expense		
U.S.	\$ 15,882	\$ -
Non U.S.	-	-
	<u>\$ 15,882</u>	<u>\$ -</u>

The provision for income taxes differs from the amount established using the Canadian statutory income tax rate (26%) as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Deferred expense (recovery)		
U.S.	\$ (62,000)	\$ 8,000
Non U.S.	-	-
	<u>\$ (62,000)</u>	<u>\$ 8,000</u>



## Note 8

Income Taxes – (cont'd)

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Income tax expense at statutory rate	\$ 129,000	\$ 85,000
Foreign income taxed at foreign statutory rate	44,000	44,000
Expiry of loss carryforward	-	26,000
Permanent differences	(16,000)	(3,000)
Effect of foreign exchange	70,000	-
Impact of under (over) provision in prior year	(249,000)	55,000
Change in valuation allowance	(40,000)	(199,000)
Net deferred tax asset expense (recovery)	<u>\$ (62,000)</u>	<u>\$ 8,000</u>

As at June 30, 2017, 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:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Deferred tax assets		
Net operating losses	\$ 832,000	\$ 787,000
Property, plant and equipment - Canada	242,000	304,000
Expenses not currently deductible and other	30,000	20,000
Valuation allowance	(805,000)	(845,000)
Total deferred tax assets	<u>\$ 299,000</u>	<u>\$ 266,000</u>
Deferred tax liabilities		
Property, plant and equipment - U.S.	(245,000)	(274,000)
Net tax deferred assets (liabilities)	<u>\$ 54,000</u>	<u>\$ (8,000)</u>

Year of Expiry	<u>United States</u>	<u>Canada</u>	<u>Total</u>
2026	\$ -	\$ 101,000	\$ 101,000
2027	-	98,000	98,000
2028	-	91,000	91,000
2029	-	94,000	94,000
2030	457,000	93,000	550,000
2031	354,000	2,000	356,000
2032	69,000	239,000	308,000
2033	-	126,000	126,000
2034	-	186,000	186,000
2035	-	640,000	640,000
2036	-	167,000	167,000
2037	-	216,000	216,000
Total Net Operating Loss Carry-Forwards	<u>\$ 880,000</u>	<u>\$ 2,053,000</u>	<u>\$ 2,933,000</u>

Note 8 Income Taxes – (cont'd)

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. In evaluating the Company's ability to recover deferred tax assets, management considers all available positive and negative evidence including past operating results, the existence of cumulative losses and our forecast of future taxable income. In determining future taxable income, the Company utilizes assumptions including the amount of state, federal and international pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates used to manage the underlying businesses.

Recognition of deferred tax assets is appropriate when realization of these assets is more likely than not. Based upon the weight of available evidence, including the Company's recent operating performance and the execution of a long-term supply agreement in August 2015, the Company has elected to recognize the gross deferred income tax assets pertaining to net operating loss carryforwards in the United States. In conjunction with the recognition of the deferred tax assets, the Company also recognized a deferred tax liability related to the basis difference between tax and accounting in respect of the Company's fixed assets in the United States.

*Uncertain Tax Positions*

The Company records liabilities related to uncertain tax positions in accordance with the guidance that clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements by prescribing a minimum recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. At June 30, 2017, 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.

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 2004.

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 9 Segmented information and sales concentration

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Customer #1	88%	77%
Customer #2	12%	23%

The amounts receivable from each of these customers at June 30, 2017 is \$159,638 and \$80,845 respectively (2016: \$335,826 and \$155,323 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 10 Supplemental Cash Flow Information

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statement of cash flows.

During the year ended June 30, 2017, the Company issued 2,400,000 equity units pursuant to the conversion of convertible debentures totalling \$240,000 at the contracted conversion price of \$0.10 per equity unit. Each unit consisted of one common share and one common share purchase warrant exercisable at \$0.10 for a period of two years.

Note 11     Subsequent Event

The Company entered into an agreement with Louisiana-Pacific Canada Ltd. and Louisiana-Pacific Corporation (collectively, "LP"), pursuant to which LP has agreed to acquire all of the issued and outstanding common shares of the Company (the "Transaction"). The Transaction will be implemented by way of plan of arrangement (the "Arrangement") under the Business Corporations Act (British Columbia). Pursuant to the Arrangement, each issued and outstanding common share of the Company will be transferred to LP in consideration for US\$0.41 per common share, for a total purchase price of US\$22 million. Upon completion of the Transaction, the Company will become a wholly-owned subsidiary of LP. The Arrangement is subject to applicable shareholder, court and regulatory approvals and the satisfaction of certain other closing conditions customary in transactions of this nature.