

INTERNATIONAL BARRIER TECHNOLOGY INC.
YEAR END REPORT
for the year ended June 30, 2013

Management Discussion & Analysis

Date of Report – September 27, 2013

Description of Business

International Barrier Technology Inc. (Barrier) manufactures and sells fire-rated building materials. Barrier's primary business is in the United States but through developing distribution partnerships is endeavoring to enter building products markets in Australia, Europe, and South America. Barrier possesses a proprietary fire resistive material technology (Pyrotite®) and a patented manufacturing process that when applied to building materials their respective fire resistant properties are significantly enhanced. Many of the top multifamily and wood frame commercial builders in the United States utilize Barrier's fire-rated structural panels in areas where the building code requires the use of a fire-rated building panel.

Barrier manufactures a private label fire rated sheathing product under contract for both LP® Building Products, Inc. (LP) and MuleHide Products, Inc. (MuleHide). LP introduced a fire rated OSB trademarked LP® Flameblock® Fire-Rated OSB Sheathing (LP FlameBlock) and MuleHide has been selling MuleHide FR Deck Panel (FR Deck Panel) to commercial modular building manufacturers since 2004.

Barrier's financial statements are filed with both the SEC (USA) and SEDAR (Canada) and are disclosed in US dollars utilizing US generally accepted accounting principles. Barrier's filings with the SEC consist of quarterly reviews financial statements on Form 10-Q and annual audited financial statements on Form 10-K. Barrier continues to file the above financial statements with SEDAR in Canada.

Sales revenue reported for the fiscal period ending June 30, 2013 was up 45% to \$5,994,994 in comparison to \$4,144,769 generated in the same fiscal period in 2012. Total sales volume, as measured by surface volume of product shipped, was 13,243,741 sq ft; an all time high for Barrier for the second year in a row. This is a 37% increase from the 9,687,029 sq. ft. shipped during the previous year.

Shipments into the Residential Roof Deck, Wall Assembly, and Structural Insulated Panel Market Sectors (LP FlameBlock) during the fiscal year increased 51% over shipments in fiscal 2012. LP Flameblock sales were split between the Mid-Atlantic region at 43%, the South at 28%, the Midwest at 15%, and the West at 12%. There were 2% of shipments of LP Flameblock into the Structural Insulated Panel market during this period. Sales into the Commercial Modular Market (FR Deck Panel) increased 11% in comparison to the previous year.

During the past quarter, LP and Barrier elected to extend their existing Supply Agreement through December 31, 2013, with an option to extend through December 31, 2014 with mutual agreement. The agreement provides LP the exclusive opportunity to market Pyrotite® technology based structural wood products in North America as long as minimum sales volumes are met on an annual basis. Sales to the Commercial Modular Market are restricted from the LP Agreement since that market is serviced by MuleHide. LP is the largest producer of Oriented Strand Board

(OSB) in the world and believes that Barrier's Pyrotite Technology helps them achieve their strategy of providing "value added" OSB products to the building community.

The relationship with LP has increased sales volume to historical levels and Barrier anticipates that sales will continue to grow substantially through the efforts of LP's sales and marketing team. Reported sales revenue for LP products, include only the charges for treatment services, not the underlying OSB substrate or outbound freight as LP supplies its own OSB substrate and contracts for its own outgoing freight. The "pass through" of the OSB substrate and freight serves to lower reported "top line" sales revenue, but not gross profits since margins on substrate and freight have historically been restricted to handling costs only to help keep prices competitive. For the Commercial Modular market, Barrier purchases OSB from local distributors and invoices the cost of the substrate and outgoing freight to the customer, therefore the cost of the substrate and freight is included in revenue for Commercial Modular shipments.

Gross profit for the fiscal period was \$709,810 vs. \$258,072 in the previous year. The gross margin, as a percentage of sales revenue, doubled from 6% in the prior year to 12% in the current fiscal year. Further improvements in gross margin are anticipated with gains in manufacturing efficiencies provided by improved production technology and efficiencies created by steady and increased sales volumes. Overhead costs will be spread across a larger manufacturing/sales volume base. Barrier is intently focused on improving gross margins.

Cost of sales increased to \$5,285,184 from \$3,886,697 in Fiscal 2012. The increase is attributable to the increase in volume produced. Average cost per sq.ft. of production remained consistent with the year-to-date average at \$0.40 for the current and prior year. As shipment volumes continue to increase, Barrier expects that the fixed costs included in Cost of Sales will decrease as revenues increase, thus improving gross margins.

Substrate cost and materials/labor were the major expenses in this category. Substrate accounted for \$1,558,479 for the fiscal year versus \$822,271 in the same period last year. Materials and labor accounted for an additional \$2,662,060 in the twelve month period in 2013 versus \$2,101,367 in 2012.

During the current fiscal year period, R&D activity has generally been focused on creating new and improved fire rated wall assemblies. New and improved wall assemblies, tested and listed by Underwriters Laboratory and sanctioned by the International Code Council, are a significant factor in improved sales volume.

Depreciation on plant and equipment is included in cost of sales category. Depreciation, which has non-cash impact on Barrier's actual cash flow, increased slightly year-to-date from \$295,466 in 2012 to \$303,914. The expense reflects scheduled depreciation of the new manufacturing line equipment and building expansion.

Administrative expenses for Fiscal 2013 decreased to \$710,294 from \$892,033 in the prior year. The administrative costs per sq. ft. were \$0.05 for the fiscal year which was a significant improvement from \$0.09 reported in Fiscal 2012. Barrier continues to focus on the positive impact of increased sales volume reducing administrative cost per square foot shipped. As volumes continue to increase, the trend for overall reduction in the average cost of administrative expense per sq.ft. is expected to continue.

Accounting and Audit Fees decreased from \$100,646 to \$91,745. A significant portion of the cost for accounting services is involved with the year-end audited review and publishing of Barrier's annual financials.

Insurance costs have decreased from \$80,672 to \$65,138. The difference is due to annually adjusted premiums based on larger sales volume discounts.

Legal fees remained stable at \$36,985 for the annual period ending June 30, 2013. For the same period in the prior year, legal fees were \$36,512. Legal fees were expended on activities related to the year-end Annual General Meeting and in support of protecting Pyrotite® patents and trademark registration as well as for help in the drafting and review of certain business correspondence. Barrier believes protecting its technology and trademarks is an important step in positioning itself to develop strategic partners and potential technology licensees.

Barrier has two US patents, a patent in Australia, and a new patent in Canada. These patents protect the manufacturing and process technology utilized in the production of fire-rated sheathing products utilizing Pyrotite®.

Sales, marketing, and investor relations expenses decreased from \$44,218 to \$34,151 for the year. During the year, there were sales trips directly related to the expansion of product markets.

Barrier's cost for sales and marketing will continue to decline relative to sales volume as our partners, LP and MuleHide Products, continue to perform more and more of those functions themselves. Barrier remains active in a support role by providing necessary technical sales support but more and more of the day to day market and sales development activities are performed by the capable sales and marketing staffs of LP and MuleHide Products resulting in improved sales but also lower costs for Barrier.

Loss Before Other items of (\$484) is being reported for the fiscal period ending June 30, 2013, whereas in the same period in 2012, a net loss of (\$633,961) was reported.

The significant improvement in loss before other items is a result of increased sales volumes and focus on manufacturing efficiency. It is Barrier's fundamental belief that sustained increased sales volume, in concert with the existing supply agreements with both MuleHide and LP Products is the best pathway to long-term profitability. Increases in Barrier's sales volume are expected to follow the improving trend in home building starts in North America.

Other items include income and costs not directly related to business operations. Other income items reported during the fiscal year herein includes a foreign exchange gain of \$8,116 and interest/other income of \$792. To compare, for the same reporting period last year there was a foreign exchange loss of (\$8,531) and interest/other income of \$1,268.

In March, 2010, Barrier issued, and sold in a private placement, 15 million shares of stock at the price of \$0.10 CDN per share. In addition, the purchasers of the shares were awarded the right to buy an additional share (warrant) at \$0.15 CDN. Barrier granted options that were exercisable in Canadian currency, whereas the functional currency of the company is the US dollar. As a result of these transactions, Barrier was required to record these instruments as derivative liabilities which are re-measured to their fair value each reporting period. During the prior fiscal year ended June 30, 2012 the Company reported a fair value gain of \$556,762 for the period. The warrants expired, thus no derivative value is recorded for the current period, nor are additional derivative values expected to have to be reported in subsequent periods. Future operating financial

performance should be easier to ascertain year over year without the non-cash derivative liability value.

Interest on Long Term Debt has increased from \$55,234 to \$67,063 for the 12-month reporting period as a result of bank refinancing.

Net Loss. A net loss of \$58,639 is being reported for the fiscal period ending June 30, 2013, whereas in the same period in 2012, a net loss of \$139,696 was reported. Changes in derivative value \$556,762 positively affected net income in the prior year reporting period so comparisons period to period are significantly affected by this non-cash item.

Barrier remains focused on cutting costs and improving efficiencies wherever it can. This includes operating the manufacturing line with maximum efficiency. Keeping a vigilant handle on costs will help keep operational costs as low as possible and enable financial improvements to occur sooner and at lower volumes than previously possible.

Summary of Quarterly Results. The following is a summary of the Company's financial results for the nine most recently completed quarters:

	Jun 30 2013	Mar 31 2013	Dec 31 2012	Sept 30 2012	June 30 2012	Mar 31 2012	Dec 31 2011	Sept 30 2011	June 30 2011
Volume shipped (MSF)	5,162	3,625	2,506	1,951	2,531	2,619	2,327	2,210	1,861
Total Revenues (000)	\$2,426	\$1,695	\$977	\$897	\$1,029	\$1,023	\$1,008	\$1,085	\$765
Operating Income (000)	\$218	\$50	(\$125)	(\$143)	(\$270)	(\$103)	(\$157)	(\$104)	(\$175)
Net income (loss) (000)	\$201	\$36	(\$135)	(\$161)	(\$291)	(\$65)	(\$34)	\$250	\$31
EPS (Loss) Per Share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	(\$0.01)	\$0.01	\$0.00

Selected Annual Information

The following financial data is for the three most recent years ended June 30:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total Revenue	\$5,995.0	\$4,144.8	\$3,256.0
Net income (loss)	(58.6)	\$(139.7)	\$895.8
Per share	0.00	\$0.00	\$0.02
Per share, fully diluted	0.00	\$0.00	\$0.02
Total assets	3,921.9	\$3,708.0	\$4,002.2
Total long-term financial liabilities	818.1	\$900.0	\$705.9
Cash dividends declared per share	Nil	\$Nil	\$Nil

New product and market development

Barrier continues to provide support to LP for new product and market development in activity directed specifically toward applications in areas where wildfires are prevalent. Wildland/ Urban Interface (WUI) zones, which are primarily located in the western US, are areas where special building codes have been developed to help save homes if a brush fire should occur. Becoming certified for use in these applications requires additional product development, including fire testing specific and unique to these fire hazard zones. In addition to these WUI applications, which are primarily associated with limiting the ignition of the exterior of the building, Barrier and LP are cooperating on the development of new, more cost effective, designs of 1 and 2 hour

exterior wall systems designed to be used when houses are built in close proximity all over the US.

Barrier and LP have now successfully designed, tested, and UL certified a 2-hr exterior load bearing wall being currently being used in wood-frame commercial/residential buildings of Type III construction. As more architects and specifying engineers become aware of this new design Barrier and LP are confident that considerable sales will result for these projects.

Global licensing opportunities

Barrier continues to explore licensed manufacturer or distribution partnership opportunities for Pyrotite® technology in geographies outside of the US.

Financial position & financings

Barrier ended the fiscal year with a working capital deficiency (current assets less current liabilities) of \$112,217. Operating cash flow was \$314,821 in comparison to (\$244,349) for the year ended June 30, 2012.

Barrier has a short term revolving line of credit (\$100,000) at the local Farmers State Bank of Watkins, in Watkins, Minnesota. As of June 30, 2013 the balance owing on the revolving line of credit was \$0 leaving an additional \$100,000 available for use. In addition, two convertible debentures in the amount of \$150,000 each were established in December 2011. To date, \$240,000 has been used on these debentures with an additional \$60,000 available for cash flow if needed.

Investing activities resulted in net cash outflow of \$155,121 in the current period in comparison to a net cash outflow of \$116,363 in the prior year. The cash outflow was the result of the acquisition of plant and equipment capital improvements.

Financing activities resulted in net cash outflow of \$81,645 in the current year compared to a net cash inflow of \$193,493 for last year. The cash outflow resulted from the repayments on long-term debt and obligations under capital lease.

There is no assurance that Barrier will operate profitably or will generate positive cash flow in the future. In addition, Barrier's operating results in the future may be subject to significant fluctuations due to many factors not within our control, such as the unpredictability of when customers will order products, the size of customers' orders, the demand for our products, the level of competition or general economic conditions.

During the twelve months ended June 30, 2012, the Company issued two convertible promissory debentures to a director and a company controlled by a director. As of June 30, 2013, the company had received \$240,000 in respect to these debentures. As needed, the Company will draw the remaining \$60,000 available. The debentures bear interest at 12% per annum and are secured by a third charge over the Company's plant and equipment as well as 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 hold thereof to purchase an additional share for \$0.10 for a period of two years from the conversion date.

Current and Future Financing Needs

At June 30, 2013, the current cash and cash equivalents totaled \$179,578; there was \$100,000 in available funds to draw on the revolving credit facility, and an additional \$60,000 available from the convertible debentures. Over the next twelve months, the Company anticipates that the operation of business will produce an average monthly operating cash flow of \$60,000 for a total of \$720,000 for the 2014 fiscal year. In addition, over the next 12 months, the Company is required to make payments totaling \$140,925 in respect of its long-term and capital lease obligations and \$849,537 in respect of accounts payable outstanding as at June 30, 2013.

The Company bases its estimate of future cash requirements on assumptions that may prove to be wrong and the requirements for cash are subject to factors, some of which are not within the control of the Company, including:

- Increased costs of general and administrative expenses
- Increased costs of raw materials and freight
- Costs associated with the research and development activities
- Costs associated with maintaining property, plant and equipment and intellectual property

Related Party Transactions

During the year ended June 30, 2012, the Company approved the issuance of two convertible debentures to a director and a company controlled by a director in the amount of \$300,000. The debentures are being issued in tranches from \$10,000 - \$50,000 and as at June 30, 2013 the Company had received \$240,000 (2012: \$200,000) in respect of these debentures. The debentures bear interest at 12% per annum, payable quarterly, 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. During the year ended June 30, 2013, the Company incurred interest charges of \$27,158 (2012: \$10,559) on these convertible debentures.

Capitalization

Authorized: 100,000,000 common shares without par value.

Issued as of June 30, 2013: 44,454,926 common shares at \$15,463,675

Issued as of Sept 14, 2013: 44,454,926 common shares at \$15,463,675

Options outstanding:

The following summarizes information about the stock options outstanding at June 30, 2013:

Number	Exercise Price	Expiry Date
3,252,500	\$0.10	May 15, 2015
<u>3,252,500</u>		

Subsequent to June 30, 2013, 1,177,500 fully vested options were granted to directors, officers, employees and consultants of the Company at \$0.097 US per common share exercisable for a period of three years.

Convertible Debenture

During the twelve months ended June 30, 2012, the Company issued two convertible debentures to a director and a company controlled by a director in the amount of \$150,000 each. The debentures are being issued in tranches of between \$10,000-50,000 and as of June 30, 2013, the company had received \$240,000 in respect to these debentures. The debentures bear interest at 12% per annum and are secured by a third charge over the Company's plant and equipment as well as 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 thereof to purchase an additional share for \$0.10 for a period of two years from the conversion date.

Other Matters

As at June 30, 2013 the Company did not have any off-balance sheet arrangements to report.