

INTERNATIONAL BARRIER TECHNOLOGY INC.
YEAR END REPORT
for the year ended June 30, 2014

Management Discussion & Analysis

Date of Report – September 29, 2014

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 the development of distribution partnerships and manufacturing technology license agreements is successfully 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 currently 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) in 2010 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, 2014 was up 36% to \$8,154,389 in comparison to \$5,994,994 generated in the same fiscal period in 2013. Total sales volume, as measured by surface volume of product shipped, was 19,750,792 sq ft; an all time high for Barrier for the third year in a row. This is a 49% increase from the 13,243,741 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 52% over shipments in fiscal 2013. Sales into the Commercial Modular Market (FR Deck Panel) increased 40% in comparison to the previous year.

Barrier and LP conduct business guided by a Supply Agreement that had a term ending on December 31, 2013. The Agreement contains a provision to extend the term annually, upon mutual agreement of both parties. As 2013 came to a close, it was clear that further discussions were warranted to determine how best to strategize future production capacity expansion plans in the US while protecting LP Corporation and Barrier's respective business interests.

While Supply Agreement modifications are being discussed, relative to the inherent changes required for future possible expansion, Barrier and LP have agreed to execute short term (30 – 90

day) extensions of the existing Agreement, as needed, to enable purposeful discussions to continue long enough to insure both parties interests have been discussed and accommodated as best possible.

The relationship with LP has contributed to an increase in sales volume to record levels and Barrier anticipates that sales will continue to grow substantially through the sustained 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 \$1,566,493 vs. \$709,810 in the previous year. The gross margin, as a percentage of sales revenue, increased to 19% in the current fiscal year from 12% in the prior year. In the near term, gross margins are anticipated to remain relatively flat or perhaps to improve slightly based on continued gains in production efficiency. Capacity limitations at the current manufacturing facility in Watkins Minnesota, however, are being approached and further non-marginal improvement in scale efficiency will be delayed until additional production capacity is added. The development of additional manufacturing capability is anticipated by late 2015.

Cost of sales increased to \$6,587,896 from \$5,285,184 in Fiscal 2014. The increase is attributable to the increase in volume produced. Barrier created significant gains in manufacturing efficiency as measured by the average cost per square foot of production which decreased from \$0.40 to \$0.33 during the fiscal reporting period.

Substrate cost and materials/labor were the major expenses in this category. Substrate accounted for \$1,529,837 for the fiscal year versus \$1,558,479 in the same period last year. Materials and labor accounted for an additional \$3,670,094 in the twelve month period in 2014 versus \$2,662,060 in 2013.

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 \$303,914 in 2013 to \$316,862. The expense reflects scheduled depreciation of the newer manufacturing line equipment and building expansion.

Administrative expenses for Fiscal 2014 increased to \$870,930 from \$710,294 in the prior year. The administrative costs per sq. ft. were \$0.04 for the fiscal year which was an improvement from \$0.05 reported in Fiscal 2013. The positive impact of increased sales volume reducing administrative cost per square foot shipped was captured during this fiscal reporting period.

Accounting and Audit Fees decreased from \$91,745 to \$80,220. A significant portion of the cost for accounting services is involved with the year-end and audited review and publishing of Barrier's annual financials.

Insurance costs have increased from \$65,138 to \$80,456. The difference is due to annually adjusted premiums based on larger sales volume.

Legal fees increased significantly from \$36,985 in Fiscal 2013 to \$74,712 in Fiscal 2014. Legal fees were expended on activities in support of developing strategic partners and technology licensees, the year-end Annual General Meeting, as well as in monitoring and protecting Pyrotite® patents and trademarks.

Barrier has two US patents, a patent in Australia, and a 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 \$34,151 to \$23,067 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 remain at current levels relative to sales volume as our partners, LP and MuleHide Products, perform the majority of those functions themselves. Barrier remains active in a support role by providing necessary technical sales support but most of the day to day market and sales development activities are already being performed by the capable sales and marketing staffs of LP and MuleHide Products resulting in improved sales but also lower costs for Barrier.

Wages and management fees increased to \$497,169 from \$388,649. The major increase in the fee is attributed to the non-cash valuation of options granted during the period. In addition, Barrier added a part-time administration team member to assist with the growing sales volumes.

Operating Income of \$695,563 is being reported for the fiscal period ending June 30, 2014, whereas in the same period in 2013, a net loss of (\$484) was reported.

The significant improvement in operating income is a result of increased sales volumes and focus on manufacturing efficiency. It is Barrier's fundamental belief that sustained increased sales volume coupled with an intense focus on manufacturing efficiency is the best pathway to long-term profitability.

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 loss of \$611 and interest/other income of \$350. To compare, for the same reporting period last year there was a foreign exchange gain of \$8,116 and interest/other income of \$792.

Interest on Long Term Debt has decreased from \$67,063 to \$61,292 for the 12-month reporting period as a result of larger principal payments as long term debt ages.

Net Income. Net income of \$585,948 is being reported for the fiscal period ending June 30, 2014, whereas in the same period in 2013, a net loss of \$58,639 was reported.

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 continue 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 2014	Mar 31 2014	Dec 31 2013	Sept 30 2013	Jun 30 2013	Mar 31 2013	Dec 31 2012	Sept 30 2012	June 30 2012
Volume shipped (MSF)	6,650	4,169	3,371	5,561	5,162	3,625	2,506	1,951	2,531
Total Revenues (000)	\$2,778	\$1,700	\$1,394	\$2,282	\$2,426	\$1,695	\$977	\$897	\$1,029
Operating Income(loss) (000)	\$520	\$85	(\$29)	\$120	\$218	\$50	(\$125)	(\$143)	(\$270)
Net income (loss) (000)	\$457	\$72	(\$45)	\$102	\$201	\$36	(\$135)	(\$161)	(\$291)
EPS (Loss) Per Share	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Selected Annual Information

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Revenue	\$8,154.0	\$5,995.0	\$4,144.8
Net income (loss)	\$586.0	\$(58.6)	\$(139.7)
Per share	\$0.01	\$0.00	\$0.00
Per share, fully diluted	\$0.01	\$0.00	\$0.00
Total assets	\$4,317.3	\$3,921.9	\$3,708.0
Total long-term financial liabilities	\$687.1	\$818.1	\$900.0
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 geographic areas where wildfires are prevalent and where building code development is becoming more restrictive with respect to designing for improved fire resistance. Focus has continued on developing products engineered to meet requirements established for Wildland/Urban Interface (WUI) zones. WUI zones are primarily located in the western US, and are areas where special building codes have been developed to help save homes if a brush fire should occur.

Enhanced focus has been made over this past year on developing products used in multifamily residential projects since the multifamily market is strong and is expected to stay vibrant over the next few years. In particular, Barrier and LP's introduction of a UL certified 2-hr exterior load bearing wall designed for use in wood-frame buildings of Type III construction is being well received by architects, building code professionals and builders alike. 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.

Most recently, Barrier and LP have begun exploring opportunities related to emerging code requirements for Engineered Wood Products (EWP) such as I-Joist and RimBoard. I-Joist and Rimboard produced using oriented strand board (OSB) technology are widely used in the building industry but have only recently been put under intense scrutiny for structural performance in a fire. Barrier and LP believe there is significant opportunity in developing EWP products that are rated for performance in a fire situation.

Some preliminary fire tests have already been conducted with positive results. Pyrotite technology seems to provide EWP with sufficient improvement in fire resistance and structural

integrity. Barrier and LP's EWP Division will be actively researching these exciting opportunities in the ensuing fiscal year and will endeavor to develop products that will meet code requirements being developed by the International Code Council (ICC).

Global licensing opportunities

Barrier continues to explore manufacturing and distribution opportunities for Pyrotite[®] technology in geographies outside of the US. During the fiscal year, Barrier announced a licensing agreement for the manufacture and distribution of Pyrotite[®] products in the European Union and Russia. Kronospan, a world-wide leader in OSB manufacturing, has officially added "OSB Pyrotite ECO" (a fire-resistant OSB panel) to their family of products. Barrier provided technical assistance in the design of their first manufacturing line, the transfer of production process technology, and material acquisition criteria. The manufacturing line is now fully operational. The license agreement provides for a payment made quarterly to Barrier by the Licensee of a royalty based on the volume of product produced. A minimum annual royalty fee was established along with an "up-front" license fee which was paid pursuant to the execution of the license agreement earlier in the year. The agreement contemplates the Licensee developing additional production facilities over the term of the license and making additional royalty payments to Barrier based on these plants production. The license agreement follows standard licensing protocol, which allows for the audit of manufacturing process and financial revenue information.

The selection of Pyrotite[®] technology by the licensor after extensive research and testing of several other fire-resistant technologies adds additional credibility to our Pyrotite[®] technology and could lead to potential interest in other geographies.

Financial position & financings

Barrier ended the fiscal year with a working capital surplus (current assets less current liabilities) of \$585,647. Operating cash flow was \$784,836 in comparison to \$314,821 for the year ended June 30, 2013.

Barrier has a short term revolving line of credit (\$200,000) at the local Farmers State Bank of Watkins, in Watkins, Minnesota. As of June 30, 2014 the balance owing on the revolving line of credit was \$0 leaving an additional \$200,000 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 \$134,124 in the current period in comparison to a net cash outflow of \$155,121 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 \$121,364 in the current year compared to a net cash inflow of \$81,645 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.

Current and Future Financing Needs

At June 30, 2014, the current cash and cash equivalents totaled \$708,926; there was \$200,000 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 \$75,000 for a total of \$900,000 for the 2014 fiscal year. In addition, over the next 12 months, the Company is required to make payments totaling \$162,773 in respect of its long-term and capital lease obligations and \$666,932 in respect of accounts payable outstanding as at June 30, 2014. Based on the foregoing, management believes there will be sufficient cash to maintain operations for the next twelve months.

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, 2014 the Company had received \$240,000 (2013: \$240,000) 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, 2014, the Company incurred interest charges of \$28,800 (2013: \$27,158) on these convertible debentures.

Capitalization

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

Issued as of June 30, 2014: 44,554,926 common shares at \$15,478,926

Issued as of Sept 14, 2014: 44,554,926 common shares at \$15,478,926

Options outstanding:

The following summarizes information about the stock options outstanding at June 30, 2014:

Number	Exercise Price	Expiry Date
3,252,500	\$0.10	May 15, 2015
1,077,500	\$0.097	August 2, 2016
<u>4,330,000</u>		

Other Matters

As at June 30, 2014 the Company did not have any off-balance sheet arrangements to report.