INTERNATIONAL BARRIER TECHNOLOGY INC.
YEAR END REPORT
for the year ended June 30, 2016

Management Discussion & Analysis

Date of Report – September 28, 2016

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 and parent company, ABC Supply Company, have been selling 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, 2016 was up 13% to $9,527,052 in comparison to $8,434,452 generated in the same fiscal period in 2015. Total sales volume, as measured by surface volume of product shipped, was 24,657,648 sq. ft. This is a 14% increase from the 21,624,100 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 21% over shipments in fiscal 2015. Sales into the Commercial Modular Market (FR Deck Panel) decreased 4% in comparison to the previous year.

The following is a summary of sales for the past two fiscal years ending June 30:

	June 30, 2016	June 30, 2015
Treatment Services	$ 7,591,125	$ 6,507,151
Substrate	1,454,980	1,373,270
Freight and Miscellaneous	480,947	554,031
	$ 9,527,052	$ 8,434,452
License Fees	-	-
Royalties	87,500	37,500
	$ 9,614,552	$ 8,471,952

The fire resistance of I-Joists is a timely and important topic in North America's building environment at this time. Web stock material treated in Watkins is being used to assist in the development of a committed market demand for Pyrotite® technology. Concurrently, plans and decisions for manufacturing or licensing the technology for production of treated I-Joist in the long-term are being developed and made. The negative impact I-Joist R&D has on shipments has been diminishing as production techniques improve with experience.

Barrier and LP conduct business guided by a Supply Agreement. In August 2015, the existing Supply Agreement was extended until December 31, 2019. In addition, in August 2015, Barrier granted a license to LP for the manufacture and distribution of Pyrotite® products in a plant in Clarke County Alabama. This license agreement will provide an additional revenue stream for Barrier. LP held a ground breaking celebration in early January 2016 for the new FlameBlock OSB Sheathing line at their Clarke County Alabama location. The line is anticipated to be operational late 2016.

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.

License fee royalties for the period increased to $87,500 from $37,500. This is due to increased manufacturing and license fees receivable from Barrier's license agreement in the European Union. Barrier's new license agreement in the southern U.S. will also generate revenue in this category in future reporting periods.

Gross profit for the fiscal period was $1,427,755 vs. $1,791,376 in the previous year. The gross margin, as a percentage of sales revenue, decreased to 15% in the current fiscal year from 21% in the prior year. In the near term, gross margins are anticipated to improve based on continued gains in production efficiency with I-Joist and the addition of an additional partial shift. 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. Additional manufacturing capacity through the addition of a FlameBlock line in Clarke County Alabama is anticipated by late 2016.

Cost of sales increased to $8,186,797 in 2016 from $6,680,576 in Fiscal 2015. The increase is attributable to the increase in volume produced and the manufacture of fire-rated I-Joist material. Manufacturing efficiency as measured by the average cost per square foot of production was $0.33 in comparison to $0.31 during the prior year fiscal reporting period.

Substrate cost and materials/labor were the major expenses in this category. Substrate accounted for $1,453,606 for the fiscal year versus $1,311,514 in the same period last year. Materials and labor accounted for an additional $5,230,859 in the twelve month period in 2016 versus $3,956,543 in 2015.

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 $337,777 in 2015 to $342,734. The expense reflects scheduled depreciation of the newer manufacturing line equipment and building expansion.

Administrative expenses for Fiscal 2016 increased to $1,083,256 from $1,016,820 in the prior year. The administrative costs per sq. ft. were $0.044 for the fiscal year which was lower than the $0.047 reported in Fiscal 2015.

Accounting and Audit Fees increased from $77,693 to $86,498. A significant portion of the cost for accounting services are involved with the annual audit of Barrier's fiscal year-end financial statements.

Insurance costs have increased from $85,438 to $87,082. The difference is due to annually adjusted premiums based on larger sales volume.

Legal fees decreased from $89,763 in Fiscal 2015 to $57,813 in Fiscal 2016. 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 $43,484 to $34,481 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 remain at relatively low levels compared to sales volumes as our partners, LP and MuleHide Products/ABC Supply Co., 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 staff of LP and MuleHide Products/ABC Supply Co. resulting in improved sales but also lower costs for Barrier.

Wages and management fees increased to $705,210 from $605,511. The increase in wages and management fees is attributed to Board of Director remuneration for the execution of the Louisiana-Pacific Corporation Technology License Agreement and accrual of the annual $15,000 Board of Director compensation for each of the periods ending June 30, 2015 and June 30, 2016 for each of the directors.

Operating Income of $344,499 is being reported for the fiscal period ending June 30, 2016, vs. $774,556 that was reported for the same period last year.

The decline in operating income is a result of lower efficiencies during the first test period and production of manufacturing I-Joist material. There were also substantial costs associated with finding and training labor to manufacture an additional partial shift of production on our second shift on the automated line. Its Barrier's fundamental belief that increased sales volume coupled with an intense focus on manufacturing efficiency is the best pathway to long-term profitability and expansion. New products will be the driver for such long-term expansion in sales.

Other items include income and costs not directly related to business operations. Other income items reported during the fiscal year herein includes interest/other income of $12,256. To compare, for the same reporting period last year there was interest/other income of $1,129.

Interest on Long Term Debt has decreased from $54,417 to $31,750 for the 12-month reporting period as a result of larger principal payments as long term debt ages. During the reporting period, the capital lease for the manufacturing plant and property was paid in full. Barrier has received the deed to the property.

Income taxes There was a deferred income tax expense of $8,000 resulting from the recognition of income tax assets in the amount of $266,000 related to the Company's net operating losses offset by the recognition of a deferred tax liability in respect of a basis difference in the Company's U.S. capital assets in the amount of $274,000.

Net Income. Net income of $317,005 is being reported for the fiscal period ending June 30, 2016, whereas in the same period in 2015, net income of $701,581 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 2016	Mar 31 2016	Dec 31 2015	Sept 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014	Sept 30 2014
Volume shipped (MSF)	6,555	7,229	5,712	5,162	5,485	5,268	4,516	6,355
Total Revenues (000)	$2,558	$2,628	$2,295	$2,134	$2,199	$1,965	$1,836	$2,472
Operating Income(loss) (000)	$111	$111	$141	$(19)	$162	$165	$119	$329
Net income (loss) (000)	$107	$104	$133	$(27)	$128	$154	$105	$315
EPS (Loss) Per Share	$0.00	$0.00	$0.00	$0.00	$0.01	$0.00	$0.00	$0.01

Selected Annual Information

	2016	2015
Total Revenue	$9,614.6	$8,472.0
Net income (loss)	$317.0	$701.6
Per share	$0.01	$0.02
Per share, fully diluted	$0.01	$0.01
Total assets	$5,457.9	$4,924.9
Total long-term financial liabilities	$27.0	$280.1
Cash dividends declared per share	Nil	Nil

New product and market development

Barrier continues to provide support to LP for a number of new product and market development initiatives including 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.

Barrier and LP continue 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. Both Barrier and LP believe there is significant opportunity in developing EWP products that are rated for performance in a fire situation.

After successful preliminary fire testing and initial test marketing, further testing resulted in a UL certified fire-rated I-Joist listing and small scale commercial production continues. Barrier and LP's EWP Division are actively pursuing these exciting opportunities during the next fiscal year. By working together we will endeavor to develop products that will meet code requirements being developed by the International Code Council (ICC), as well as production technology and capacity.

Global licensing opportunities

Barrier continues to explore manufacturing and distribution opportunities for Pyrotite® technology in geographies outside of the US. During the fiscal year ended June 30, 2014, 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. 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. Particular interest in Barrier's Pyrotite® technology has been expressed by parties in China, Australia, and South America.

Financial position & financings

Barrier ended the fiscal year with a working capital surplus (current assets less current liabilities) of $1,075,237. Operating cash flow was $720,317 in comparison to $603,197 for the year ended June 30, 2015.

Barrier has a short term revolving line of credit ($500,000) at the local Farmers State Bank of Watkins, in Watkins, Minnesota. As of June 30, 2016 the balance owing on the revolving line of credit was $0 leaving an additional $500,000 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 drawn on these debentures with an additional $60,000 available for cash flow if needed. The convertible debentures expire January 2017.

Investing activities resulted in net cash outflow of $547,090 in the current period in comparison to a net cash outflow of $474,723 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 $48,739 in the current year compared to a net cash outflow of $32,948 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, 2016, the current cash and cash equivalents totaled $928,940; there was $500,000 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 2016 fiscal year. In addition, over the next 12 months, the Company is required to make payments totaling $14,585 in respect of its capital lease obligations, $860,697 in respect of accounts payable outstanding as at June 30, 2016, and $240,000 in convertible debentures (unless they are converted to shares of common stock). Based on the foregoing, management believes there will be sufficient cash to maintain operations for the next 12 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, 2016 the Company had received $240,000 (2015: $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, 2016, the Company incurred interest charges of $28,800 (2015: $28,800) on these convertible debentures. The convertible debentures mature on January 30, 2017.

Capitalization

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

Issued as of June 30, 2016: 47,807,426 common shares at $15,934,256

Issued as of Sept 14, 2016: 48,884,926 common shares at $16,038,774

Options outstanding:

The following summarizes information about share purchase options outstanding as at June 30, 2016:

	Price	Expiry Date	Contractual Life
1,077,500	$0.097	August 2, 2016	0.09 years
1,077,500			

Subsequent to June 30, 2016, there were a total of 1,077,500 stock options exercised at $0.097 each for a total of $104,517.50.

Other Matters

As at June 30, 2016 the Company did not have any off-balance sheet arrangements to report.