INTERNATIONAL BARRIER TECHNOLOGY INC.
YEAR END REPORT
for the year ended June 30, 2012

Management Discussion & Analysis

Date of Report – September 28, 2012

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, 2012 was up 27% to $4,144,769 in comparison to $3,256,019 generated in the same fiscal period in 2011. Total sales volume, as measured by surface volume of product shipped, was 9,687,029 sq. ft.; an all time high for Barrier. This is a 39% increase from the 6,962,264 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 106% over shipments in fiscal 2011. LP Flameblock sales were split between the West at 32%, the Mid-Atlantic region at 31%, the South at 17%, the Midwest at 15%, and less than 1% in Canada. There were 5% of shipments of LP Flameblock into the Structural Insulated Panel market during this period.

Sales into the Commercial Modular Market (FR Deck Panel) decreased 13% in comparison to the previous year). The decrease was the result of the stagnant construction industry. However, the decrease in sales volume in the Commercial Modular market was only offset by a 3.30% decrease in cost of sales primarily as a result of increased commodity prices incurred during the year for substrate. As expansion funds for projects that use commercial modular structures, such as government barracks and temporary school buildings weren't available during the economic downturn. In addition, the need for job-site construction trailers (another use of commercial modular products) diminished during this time as well.

On January 18, 2011, LP and Barrier extended their existing Supply Agreement through December 31, 2012 with the opportunity to extend through December 31, 2013 should both parties agree. LP is the largest producer of Oriented Strand Board (OSB) in the world and believes that Barrier's Pyrotite Technology will help them achieve their strategy of providing "value added" OSB products to the building community. The agreement gives LP the exclusive right to sell Pyrotite® treated structural panel products in North America, in all markets other than commercial modular (MuleHide Products, Inc.), under their brand name LP® FlameBlock® Fire-Rated OSB Sheathing.

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 as LP supplies its own OSB substrate, and outgoing freight. This 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 $258,072 vs. $110,088 in the previous year. The gross margin, as a percentage of sales revenue, doubled to 6% from 3% in the prior year. 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 $3,886,697 from $3,145,931 in Fiscal 2011. The increase is attributable to the increase in volume produced. A sizeable gain in manufacturing efficiency is reflected in the decreased year-to-date average cost per sq.ft. of production of $0.40 in comparison to $0.45 in the comparable period. As shipment volumes continue to increase, Barrier expects that the fixed costs included in Cost of Sales will continue to decrease as revenues increase, thus improving gross margins considerably.

Substrate cost and materials/labor were the major expenses in this category. Substrate accounted for $822,271 for the fiscal year versus $850,852 in the same period last year. Materials and labor accounted for an additional $2,101,367 in the twelve month period in 2012 versus $1,350,400 in 2011.

R&D activity has generally been focused on product applications in wildfire prone areas in the western US and for 1 and 2-hour rated exterior wall assemblies. Fire resistant exterior walls are often required where buildings are intended to be built close together.

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 $272,105 in 2011 to $295,466. The expense reflects scheduled depreciation of the new manufacturing line equipment and building expansion. Amortization, another non-cash category of reporting, of the worldwide Pyrotite technology (including patents, technical know-how, and trademarks) began when Barrier purchased it in 2004 and was fully amortized during the reporting period.

Administrative expenses for Fiscal 2012 increased to $892,033 from $660,196 in the prior year. The administrative costs per sq. ft. were $0.09 for the fiscal year which equaled the $0.09 reported in Fiscal 2011. While changes in derivative value (see Note 6) positively affected administrative costs significantly last year, Barrier continues to focus on how increased sales volume will help reduce admin cost per square foot shipped. As volumes continue to increase, a continued trend for overall reduction in the average cost of administrative expense per sq.ft. will be manifest.

Accounting and Audit Fees increased from $86,575 to $100,646.

Insurance costs have decreased from $85,121 to $80,672. The difference is due to annually adjusted premiums based on larger sales volume discounts.

Legal fees decreased significantly to $36,512 for the annual period ending June 30, 2012. For the same period in the prior year, legal fees were $62,979. Legal fees were expended on activities 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 and a patent in Australia protecting the manufacturing technology utilized in the production of fire-rated sheathing products utilizing Pyrotite.

Sales, marketing, and investor relations expenses decreased from $208,944 to $44,218 for the year. The major reason for the decrease in expense under this category was the enhanced effort placed on investor relations in the prior year. Barrier contracted with an external investor relations and media firm, The Investor Relations Group "IRG," from July through November 30, 2010. The partnership fit into a strategy of increasing investor awareness of Barrier's improving business to the investment community.

In addition to the utilization of IRG, Barrier also contracted with an independent Investor Relations professional to conduct dialogue with current and prospective investors during the time period of October 2010 through April 2011. Barrier is committed to maintaining strong relationships with our investors through communication on an ongoing basis and as future cashflow allows access to additional funds, a more active investor relations program will be initiated.

Barrier's direct 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 ($633,961) is being reported for the fiscal period ending June 30, 2012, whereas in the same period in 2011, a net loss of ($550,108) was reported.

Barrier anticipated a slower start as the Flamebock brand enters the market and gains strength. Losses early in the LP relationship were anticipated. LP and Barrier targeted a market based price that is more competitive to past product pricing and at a level that will support improved market share. As the construction industry continues recovery, and as sales continue to increase, gross margins and profits are expected to improve.

Other items include income and costs not directly related to business operations. Other income items reported during the period herein includes a foreign exchange loss of ($8,531) and interest/other income of $1,268. To compare, for the same reporting period last year there was a foreign exchange gain of $37,919 and interest/other income of $4,296.

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 fiscal year ending June 30, 2012 the Company reported a fair value gain of $556,762 vs. $1,453,238 in Fiscal 2011.

Interest on Long Term Debt has increased from $49,534 to $55,234 for the 12-month reporting period.

Net Income. A net loss of ($139,696) is being reported for the fiscal period ending June 30, 2012, whereas in the same period in 2011, a net gain of $895,811 was reported. While changes in derivative value (see Note 6) affected net income in the prior year reporting period, Barrier remains focused on cutting costs and improving efficiencies wherever it can. Barrier remains focused on cutting costs and improving efficiencies wherever it can. This includes operating the manufacturing line with maximum efficiency, as the economy remains unsettled and residential construction slowly begins to recover. Keeping a vigilant handle on costs will help keep operational costs as low as possible and enable recovery 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:

	June 30 2012	Mar 31 2012	Dec 31 2011	Sept 30 2011	June 30 2011	Mar 31 2011	Dec 31 2010	Sept 30 2010	June 30 2010
Volume shipped (MSF)	2,531	2,619	2,327	2,210	1,861	1,573	1,754	1,774	1,496
Total Revenues (000)	1,029	$1,023	$1,008	$1,085	$765	$735	$877	$879	$574
Operating Income (000)	($270)	($103)	($157)	($104)	($175)	($176)	($30)	($169)	($370)
Net income (loss) (000)	($291)	($65)	($34)	$250	$31	$11	$808	$46	($117)
EPS (Loss) Per Share	$0.00	$0.00	($0.01)	$0.01	$0.00	$0.00	$0.02	$0.00	($0.00)

Selected Annual Information

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

	2012	2011	2010
Total Revenue	$4,144.8	$3,256.0	$2,606.3
Net income (loss)	(139.7)	895.8	(2,330.0)
Per share	0.00	0.02	(0.07)
Per share, fully diluted	0.00	0.02	(0.07)
Total assets	3,708.0	4,002.2	5,002.0
Total long-term financial liabilities	900.0	705.9	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 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 manufacturing and distribution opportunities for Pyrotite technology in geographies outside of the US.

Financial position & financings

Barrier ended the period with a working capital deficiency (current assets less current liabilities) of ($153,932). The negative operating cash flow was ($244,349) in comparison to ($329,065) for the fiscal period ended June 30, 2011.

Barrier has also established a short term revolving line of credit ($50,000) at the local Farmers State Bank of Watkins, in Watkins, Minnesota. As of June 30, 2012 the balance owing on the revolving line of credit was $40,000 leaving an additional $10,000 available for use. In addition, a $300,000 convertible debenture was established in December 2011. To date, $200,000 has been used on this debenture with an additional $100,000 available for cash flow if needed.

Investing activities resulted in net cash outflow of ($116,363) in the current period in comparison to a net cash outflow of ($74,857) 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 inflow of $193,493 in the current period compared to a net cash outflow of ($190,457) for the same period last year. The cash inflow resulted from the incoming funds from the convertible debenture, a new loan facility and then repayments on long-term debt and obligations under capital lease. At the end of December, Barrier negotiated a new banking relationship with Farmers State Bank of Watkins. With the long term debt needs reduced, Barrier was able to combine the term loan and line of credit from First National Bank of Cold Spring into a single note with a reduced interest rate (from 6.75% and 7% to 6.25%) at Farmers State Bank.

There is no unqualified 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. These factors cast substantial doubt about the Company’s ability to continue as a going concern is dependent upon the Company’s ability to generate profitable operations and/or obtain the necessary financing to meet its obligations and repay its liabilities as they come due. The Company’s independent auditors included an explanatory regarding substantial doubt about the Company’s ability to continue as a going concern in their report on the Company’s annual financial statements for the fiscal year ended June 30, 2012.

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. The debentures are being issued in tranches of $50,000 and as of June 30, 2012, the company had received $200,000 in respect to these debentures. As needed, the company will draw the remaining $100,000 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 holder thereof to purchase an additional share for $0.10 for a period of two years from the conversion date.

Although management believes that revenues will increase, management also expects an increase in operating costs directly related to the increase in sales. Consequently, the Company expects to incur short term operating losses and negative cash flow until our products gain market acceptance sufficient to generate a commercially viable and sustainable level of sales, and/or additional products are developed and commercially released and sales of such products made so that we are operating in a profitable manner.

Current and Future Financing Needs

At June 30, 2012, the current cash and cash equivalents totaled $101,523; there was $10,000 in available funds to draw on the revolving credit facility, and an additional $100,000 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 $20,000 for a total of $240,000 for the 2013 fiscal year. In addition, over the next 12 months, the Company is required to make payments totaling $169,714 in respect of its long-term debt and capital lease obligations and $495,383 in respect of accounts payable outstanding as at June 30, 2012 with $114,881 incoming accounts receivable as of June 30, 2012. The Company expects to fund the cash shortfall with an additional convertible debenture or private placement.

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 twelve months ended June 30, 2012 the Company incurred wages and management fees to the directors and officers of the company of $278,363. The Company paid $186,793 in wages and management fees for the same prior year-to-date.

Capitalization

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

Issued as of June 30, 2012: 44,454,926 common shares at $15,463,675
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Options outstanding:

The following summarizes information about the stock options outstanding at June 30, 2012:

Number	Exercise Price	Expiry Date
350,000	$0.15 CDN	October 29, 2012
40,000	$0.064 CDN	June 10, 2013
3,840,000	$0.10	May 15, 2015
4,230,000		

Other Matters

As at June 30, 2012 the Company did not have any off-balance sheet arrangements to report.