INTERNATIONAL BARRIER TECHNOLOGY INC.
YEAR END REPORT
for the year ended June 30, 2017

Management Discussion & Analysis

Date of Report – September 28, 2017

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, 2017 was down slightly by 4% to $9,155,528 in comparison to $9,527,052 generated in the same fiscal period in 2016. Total sales volume, as measured by surface volume of product shipped, was 25,639,608 sq. ft. This is a 4% increase from the 24,657,648 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 18% over shipments in fiscal 2016. Sales into the Commercial Modular Market (FR Deck Panel) decreased 46% in comparison to the previous year.

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

	June 30, 2017	June 30, 2016
Treatment Services	$ 7,904,712	$ 7,591,125
Substrate	984,688	1,454,980
Freight and Miscellaneous	266,128	480,947
	$ 9,155,528	$ 9,527,052
License Fees	-	-
Royalties	248,204	87,500
	$ 9,403,732	$ 9,614,552

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.

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 Clarke County Alabama facility began production in November 2016. In July 2017, the Company entered into an agreement to combine with LP. The transaction is subject to the approval of the Barrier shareholders and satisfaction of customary conditions, including court approval and is expected to close early October 2017.

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 $248,204 from $87,500. This is due to increased manufacturing and license fees receivable from Barrier's license agreement in the southern U.S.

Gross profit for the fiscal period was $1,448,321 vs. $1,427,755 in the previous year. The gross margin, as a percentage of sales revenue, increased to 16% in the current fiscal year from 15% in the prior year. There was a significant decline in sales volumes the last quarter of the fiscal year as the facility in Clarke County Alabama was fully operational and orders were being split between both facilities. In the near term, gross margins are anticipated to improve based on increased over-all sales of FlameBlock sales to allow both plants to operate at full production efficiency.

Cost of sales decreased to $7,955,411 in 2017 from $8,186,797 in Fiscal 2016. The decrease is attributable to the slight decrease in volume produced. Manufacturing efficiency as measured by the average cost per square foot of production was $0.31 in comparison to $0.33 during the prior year fiscal reporting period.

Substrate cost and materials/labor were the major expenses in this category. Substrate accounted for $991,524 for the fiscal year versus $1,453,606 in the same period last year. Materials and labor accounted for an additional $5,592,326 in the twelve month period in 2016 versus $5,230,859 in 2016.

Depreciation on plant and equipment is included in cost of sales category. Depreciation, which has non-cash impact on Barrier's actual cash flow, decreased year-to-date from $342,734 in 2016 to $287,422. The expense reflects scheduled depreciation of the newer manufacturing line equipment and building expansion.

Administrative expenses for Fiscal 2017 decreased to $986,207 from $1,083,256 in the prior year. The administrative costs per sq. ft. were $0.038 for the fiscal year which was lower than the $0.044 reported in Fiscal 2016.

Accounting and Audit Fees increased from $86,498 to $91,704. 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 $87,082 to $101,356. The difference is due to annually adjusted premiums based on larger sales volume estimates from the prior year.

Legal fees decreased from $57,813 in Fiscal 2016 to $34,277 in Fiscal 2017. 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 increased slightly from $34,481 to $36,962 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 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 ABC Supply Co. resulting in improved sales but also lower costs for Barrier.

Wages and management fees decreased to $597,555 from $705,210. The decrease in wages and management fees is attributed to the 2016 Board of Director remuneration for the execution of the Louisiana-Pacific Corporation Technology License Agreement that was in the prior year.

Operating Income of $462,114 is being reported for the fiscal period ending June 30, 2017, vs. $344,499 that was reported for the same period last year.

The increase in operating income is a result of higher production efficiencies during period and the increase in royalty revenue. 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 $1,960. To compare, for the same reporting period last year there was interest/other income of $12,256.

Interest on Long Term Debt has decreased from $31,750 to $17,753. During the reporting period, the convertible debentures were converted to common stock of the company. There is no outstanding long-term debt as of the reporting date.

Income taxes During the current period, Barrier paid $15,882 in income tax. As well, during the current period, the Company recognized a deferred income recovery of $62,000 (2016: deferred tax expense of $8,000) related to the change in value of the Company's tax assets and liabilities.

Net Income. Net income of $492,439 is being reported for the fiscal period ending June 30, 2017, whereas in the same period in 2016, net income of $317,005 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 2017	Mar 31, 2017	Dec 31, 2016	Sept 30, 2016	Jun 30, 2016	Mar 31, 2016	Dec 31, 2015	Sept 30, 2015
Volume shipped (MSF)	4,424	7,137	7,572	6,507	6,555	7,229	5,712	5,162
Total Revenues (000)	$1,762	$2,449	$2,717	$2,476	$2,558	$2,628	$2,295	$2,134
Operating Income(loss) (000)	$(27)	$145	$344	$0	$111	$111	$141	$(19)
Net income (loss) (000)	$35	$128	$336	$(7)	$107	$104	$133	$(27)
EPS (Loss) Per Share	$(0.00)	$0.00	$0.01	$(0.00)	$0.00	$0.00	$0.00	$(0.00)

Selected Annual Information

	2017	2016
Total Revenue	$9,403.7	9,614.6
Net income (loss)	$492.4	$317.0
Per share	$0.01	$0.01
Per share, fully diluted	$0.01	$0.01
Total assets	$5,852.0	$5,457.9
Total long-term financial liabilities	$Nil	$27.0
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 $1,843,091. Operating cash flow was $351,059 in comparison to $720,317 for the year ended June 30, 2016.

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, 2017 the balance owing on the revolving line of credit was $0 leaving an additional $500,000 available for use.

Investing activities resulted in net cash outflow of $507,536 in the current period in comparison to a net cash outflow of $547,090 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 $304,378 in the current year compared to a net cash outflow of $48,739 for last year. The cash inflow resulted from the exercise of stock options and the conversion of the warrants associated with the convertible debt.

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, 2017, the current cash and cash equivalents totaled $1,076,841 and there was $500,000 in available funds to draw on the revolving credit facility. 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 2018 fiscal year. In addition, over the next 12 months, the Company is required to make payments totaling $515,958 in respect of accounts payable outstanding as at June 30, 2017. Based on the foregoing, management believes there will be sufficient cash to maintain operations for the next 12 months if the proposed acquisition with Louisiana-Pacific does not proceed.

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 bore 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 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. During the fiscal year ended June 30, 2017, the Company incurred interest charges of $15,948, respectively (2016: $28,800) on these convertible debentures. On January 20, 2017, the convertible debentures were converted to units of the Company and corresponding warrants were issued. The warrants were also exercised in full.

Capitalization

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

Issued as of June 30, 2017: 53,684,926 common shares at $16,584,133

Issued as of Sept 14, 2017: 53,684,926 common shares at $16,584,133

There are no options outstanding.

Other Matters

As at June 30, 2017 the Company did not have any off-balance sheet arrangements to report.