

INTERNATIONAL BARRIER TECHNOLOGY INC.
YEAR END REPORT
for the year ended June 30, 2009

Management Discussion & Analysis

Date of Report – September 28, 2009

Description of Business

International Barrier Technology Inc. (Barrier) manufactures and sells fire-rated building materials primarily in the United States. Barrier has a patented fire protective material (Pyrotite™) that is applied to building materials to greatly improve their respective fire resistant properties. Coated wood panel products are sold to builders through building product distribution companies all over the United States. Many of the top multifamily homebuilders in the United States utilize Barrier's fire-rated structural panel Blazeguard® in areas where the building code requires the use of a fire-rated building panel.

Discussion of Operations

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 reviewed 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 year ending June 30, 2009 was \$4,091,647. Total sales volume, as measured by surface volume of product shipped, was 5,780,032 sq.ft. During the same period in the previous year, Barrier shipped 7,222,525 sq.ft. with sales revenue of \$4,877,605.

The loss of sales volume, year to year, is attributed to the continued decline in US economy and construction. Barrier sold 1,552,300 sq. ft. to residential markets, which was a slight increase over the 1,517,200 sq. ft. in FY2008. As the residential markets remained relatively stable year over year with slight indications of improvement, commercial modular shipments were the most impacted this past year – a decline of 26% from 5,637,000 sq. ft. to 4,182,900 sq. ft. Structural Insulated Panels decreased slightly from 68,300 sq. ft. to 44,800 sq. ft.

Barrier continues to expand the geographic base for Blazeguard sales in the US and Canada. Barrier and is actively marketing Blazeguard to the multi-family residential roof deck market in Southern California. Barrier is also marketing Blazeguard to single family exterior side wall applications in the wildfire prone areas of California, Oregon, Washington and Colorado as well. Barrier's wholesale building products distributor in California has Blazeguard inventory (carload shipments to keep freight costs down) and expects to see increased sales to builders and lumber dealers in the coming months. During the past year, we added sales representation in both the Mountain States (Colorado, Utah, and Wyoming) and the Pacific Northwest (Washington, Oregon, and Northern California). Specified Building Products, Stan South and Chad Nibbe, represent a variety of specified construction product lines throughout the Mountain States Region and have added Blazeguard Fire-Rated Sheathing to their product base. Snuff-It's, James Walmsley, has his own fire-rated products distributorship and website, www.wildfireoptions.com. Blazeguard is now a featured product for Snuff-It throughout the Pacific Northwest region.

Several potential distribution sources have been identified in both markets and we expect inventory in these regions over the next several months.

During the past year, commercial modular applications expanded further in territory and specified projects. With our partnership with MuleHide Products, we developed a new distribution source and moved inventory into Canada. The fire codes throughout Alberta, Canada for building projects during the construction process were modified during the year and our product offers a viable solution. After the acceptance of the FR Deck Panel in the government specifications for barrack construction, we have seen an increase in interest, quotes, and use in these projects across the country.

In August 2008, Blazeguard® was added to the short list of the California State Fire Marshall's Office (CSFM) approved products for high risk wildfire zones. Blazeguard® is listed as an approved exterior sheathing for roof and wall applications; a "limited ignition" material; and, for use in soffit areas under eaves. Barrier is currently marketing this fact to local architects, building code officials, and builders in the area. The initial response has encouraged Barrier to believe that as the housing economy improves in California, Blazeguard® sales there to residential markets could exceed any other area previously targeted.

Barrier believes that recent success in introducing Blazeguard into other market applications (such as commercial modular), and other emerging geographical locations for multi-family residential, have served to lower risk by spreading sales over a broader market playing field and making the business less vulnerable to cyclicity in any one region or product application. The broadening of the geographic markets served will help Barrier withstand periodic cyclicity in one market by focusing efforts and providing sales opportunities to others.

As the US building industry continues its recovery into 2010, and as housing starts continue their climb back to levels reflecting the underlying need for new homes, Barrier anticipates a significant recovery in the growth rate of Blazeguard residential sales volume. Barrier continues its press to add builders, one by one. During "slow times", Barrier, and the existing Blazeguard distribution network, have found builders eager to learn about how Blazeguard can improve the value of their homes. Barrier's aggressive positioning during this time period has created future opportunity and set the stage for strong growth as the housing market improves.

Gross profit for Fiscal 2009 was \$577,154 and increase of 70.2% from the \$339,086 in the previous year. The gross margin, as a percentage of sales revenue significantly improved to 14% in comparison to 7% in the prior year. This is largely due to labor and material efficiencies gained throughout the year.

The new production line became "fully" operational in October 2007. While the "old" line continues to produce odd size orders and plywood (warped boards), all other Blazeguard® production is run on the new line. The new line is proving out that expected gains in efficiency and quality are possible at speeds over twice as fast as the old line. As sales volumes increase to levels where the new line is used at or near full capacity (approximately 20 million sq. ft. per 8 hr shift), efficiency gains will be noticeable on the bottom line as profits improve substantially.

Cost of sales decreased to \$3,514,493 from \$4,538,519 in Fiscal 2009. The decrease is attributable to gaining efficiency in operations and lower sales volume. The year-to-date average cost per sq.ft. of production improved to \$0.61 in comparison to \$0.63 in the comparable period.

R&D expenses which were incurred as new market applications continue to be explored and developed were \$17,091 vs. \$144,181 in Fiscal 2008. Barrier continues to invest in R&D to potentially develop other markets for Pyrotite™ and Blazeguard® products for future diversification, while keeping the expenses as low as possible. Directly applying Pyrotite™ to foam insulation remains a viable opportunity in the future.

Included in cost of sales was amortization on plant and equipment. Amortization increased slightly for the year from \$260,335 to \$264,122. The expense reflects scheduled depreciation of the new manufacturing line equipment and building expansion. The amortization of the worldwide Pyrotite technology (including patents, technical know-how, and trademarks) began when Barrier purchased it in 2004 and will continue at existing rates until it is fully depreciated (eight years). Neither of these items have an impact on the cash position of the Company.

Administrative expenses for Fiscal 2009 decreased to \$1,159,294 from \$1,117,606 in the prior year. The administrative costs per sq. ft. increased for the reporting period from \$0.15 to \$0.20. Many of these costs are fixed and don't change proportionately with sales volume. As the economy and sales improve, a reduction in the average cost of administrative expense per sq.ft. produced is expected. Barrier expects the reduction in the average cost of administration to have a significant impact on bottom line performance in future reporting periods.

Accounting and Audit Fees increased from \$45,331 to \$74,537. This is attributed to increased year-end audit fees due to regulatory compliance with Sarbanes-Oxley.

Insurance costs have decreased to \$62,399 in comparison to \$125,974 the previous year. The difference is due primarily to lower product liability premiums, which is a function of sales volumes.

Impairment provision on trademark and technology rights

The company is required by SFAS No. 144 to review the recoverability of its long-lived assets, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about future operating performance, and may differ from actual cash flows. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flow (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. During the year ended June 30, 2009, the Company recorded an impairment provision of \$113,746 (2008 - \$nil) related to the Company's trademark and technology rights.

Interest on Long Term Debt has increased slightly from \$82,109 to \$85,838 for the reporting period. This increase is a result of utilizing an operating line of credit that has enabled Barrier to grow inventory levels to anticipate customer needs and to provide interim funding for short term working capital requirements.

During the year ended June 30, 2009, the terms of the revolving bank facility were modified to include a \$500,000 capital loan being amortized by the bank over a 7 year period and which is secured by building, property and equipment. Additionally, the bank provided a \$500,000 credit

facility as an operating line of credit from which the company has drawn \$475,000 as at June 30, 2009. Subsequent to June 30, 2009, the terms of the bank loan facility were amended to extend the maturity date to August 1, 2010 and to reduce the interest rate to 7%.

Legal fees increased to \$73,631 for Fiscal 2009 (vs. \$64,024 in Fiscal 2008). Legal fees were expended on activities in support of Blazeguard and Pyrotite patent 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.

Office and Miscellaneous expenses for Fiscal 2009 were \$105,320 in comparison to \$69,268 in Fiscal 2008. The increase is due to a bad debt expense of \$34,045 for a customer who filed for bankruptcy. This is in comparison to \$0 of bad debt expense in the prior year.

Sales, Marketing, and Investor Relations expenses decreased slightly at \$66,876 vs. \$68,909 in comparison to the prior year. Sales expenses in Fiscal 2009 were focused on the development of both the northern and southern California territories, Oregon, and Colorado – the Northern Pacific region. Additionally, with the emergence of Mr. James Dukart as a trained and “seasoned” sales and marketing expert for Blazeguard (especially in multifamily residential roof decks and Structural Insulated Panel (SIPs) markets), an additional person is now available to travel from Barrier’s headquarters’ office in support of sales activities. While Barrier has always planned business travel to accommodate only “necessary” trips, all business travel is currently pre-approved by a cash flow committee in addition to approval by Barrier’s CEO.

Other income includes income not directly related to business operations. Other items reported during the period herein include \$7,521 in interest income vs. \$21,152 in the prior year and (\$58,088) in foreign exchange loss vs. a foreign exchange gain of \$31,127 in the prior year.

Net Loss. A net loss of (\$718,545) is being reported for Fiscal 2009, whereas in fiscal 2008, a net loss of (\$808,350) was reported. Barrier remains focused on cutting costs wherever it can. This includes operating the manufacturing line with maximum efficiency, as the economy remains unsettled and the retraction in residential construction continues. 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:

	Jun 30 2009	Mar 31 2009	Dec 31 2008	Sept 30 2008	June 30 2008	March 31 2008	Dec 31 2007	Sept 30 2007	June 30 2007
Volume shipped (MSF)	1,011	1,085	1,578	2,106	1,891	1,893	1,555	1,883	2,273
Total Revenues (000)	\$618	\$764	\$1,123	\$1,587	\$1,349	\$1,214	\$1,065	\$1,249	\$1,434
Operating Income (000)	(\$277)	(\$211)	(\$94)	(\$0)	(\$143)	(\$208)	(\$271)	(\$239)	(\$44)
Net income (loss) (000)	(\$346)	(\$215)	(\$164)	\$6	(\$134)	(\$224)	(\$258)	(\$193)	\$12
EPS (Loss) Per Share	(\$0.00)	(\$0.01)	(\$0.01)	\$0.00	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.00)	\$0.00

Selected Annual Information

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total Revenue	\$4,092.0	\$4,878.0	\$6,130.0
Net income (loss)	(719.0)	(808.0)	(491.0)
Per share	(0.02)	(0.03)	(0.02)
Per share, fully diluted	(0.02)	(0.03)	(0.02)
Total assets	4,849.0	5,738.0	5,887.9
Total long-term financial liabilities	1,319.8	1,212.3	819.4
Cash dividends declared per share	Nil	Nil	Nil

New product and market development

Barrier continues to invest time and financial resources in an effort to accelerate long and near term growth. While these expenditures take away from near term profits, research and development of new products and applications as well as market development for existing products and applications are crucial to the attainment of strategic objectives and business alliances. Barrier intends to grow the business to levels far beyond those currently attained and new initiatives in products and markets are necessary if these long term goals are to be achieved. Ongoing initiatives continue to provide opportunities for sales expansion and growth.

Barrier, in collaboration with MuleHide Products, continues to experience success in supply both Class A and C rated roof assemblies in commercial modular roof decks for buildings destined for military use on domestic military bases. A “new” Underwriters Laboratories (UL) listing allows a FR C board to be utilized under an alternate single-ply membrane (FPEM) while achieving a Class A system rating. This system significantly reduces the cost of the structure and Barrier and MuleHide believe this system has a great future in commercial modular sales.

Barrier has been working with a major insulated foam producer in an attempt to develop a fire rated foam product that can be used both in the finishing of basement walls as well as in “built-up” commercial roof decks. We passed the required fire tests to market a coated ISO foam product to interior ceiling and wall markets. Our Quality Control Manual has been updated to include this product and as the market for commercial building improves, we are confident it will lead to increased sales.

Barrier improved certain elements of the old production line in an effort to produce structural insulated panels (SIPs) with a more consistent surface appearance. SIPs were a significant business for Blazeguard from 1996–1999. Variability in the surface appearance of the coating, however, created repeatable issues and complaints when the panels were used as an exposed interior wall surface, especially in residential applications. The improvements completed will help to improve the consistency of Blazeguard panels used in SIPs and make them more appealing and marketable to SIPs customers. Barrier will be participating with the SIPA organization at the International Builders Show in January to promote Blazeguard and gain further credibility with the key players in this market.

Global licensing opportunities

Barrier continues to solicit opportunities for licensing arrangements wherever in the world that opportunity exists. When interested parties inquire regarding licensing, Barrier responds with an information packet and begins an assessment of appropriateness of fit with our technology.

Barrier believes that expansion of production capacity to meet the increased demand for Blazeguard in particular geographies or in particular market applications may be best served by cooperating with a partner company in the targeted industry when a new production facility is built. Barrier is exploring both joint venture and licensing scenarios as plans for future growth are discussed.

Any licensing agreements will be designed to protect the technology, prohibit competition, and provide for royalties to be paid to Barrier on an ongoing basis.

Product and technology licensing scenarios are being developed within Barrier and management is confident that licensing relationships or relationships leading to licensing contracts will be in existence in the near future.

Financial position & financings

Barrier ended the period with a working capital surplus of \$270,955.

The Company generated negative operating cash flow for the fiscal year ended June 30, 2009 of (\$318,979) from (\$79,654) for the fiscal year ended June 30, 2008. The net cash outflow from operating activities for the current fiscal year ended was primarily a result of a net loss of \$(718,545), a reduction in amounts owed to vendors (\$330,447) offset by non cash charges to net income for \$400,358 and one-time adjustments for settling an outstanding lawsuit for \$50,000, and recognizing an impairment on the trademark and technology rights for \$113,746. The Company expects to fund short-term cash needs out of current operations and supplement other short-term needs with the operating line of credit that is secured by a security interest in inventory, accounts receivable, equipment and all intangibles of the company as well as an assignment of the building lease.

Investing activities (purchase of plant and equipment) resulted in a net cash outflow of \$14,196 in this year compared to a net cash outflow of \$434,095 in prior year. The Company does not expect any additional long-term capital needs in the near future as they recently expanded the operations with a more efficient automated process that is projected to fulfill future growth needs. The new automation was funded largely by a private placement coupled with operating cash flows.

Financing activities resulted in a net cash inflow of \$107,472 in the current year compared to a net cash inflow of \$392,859 for the same period last year. The change in financing activities from cash flow was primarily from advancing on the line of credit to fund working capital needs and the continuance of retiring debt through the amortization of debt service.

There is no assurance that we will operate profitably or will generate positive cash flow in the future. In addition, our 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.

Although management believes that revenues will increase, management also expects an increase in operating costs. Consequently, the Company expects to incur 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

The Company currently does not have sufficient cash to operate its business for the fiscal year ended June 30, 2010. At June 30, 2009, the current cash and cash equivalents total \$210,723 and the revolving credit facility on which there is an amount of \$25,000 available to draw. However, over the next 12 months, the Company anticipates that the operation of business will produce an average negative monthly operating cash flow of approximately \$25,000 for a total of \$300,000 for the 2010 fiscal year. In addition, over the next 12 months, the Company is required to make payments totaling \$114,750 in respect of its long-term debt and capital lease obligations. Potential sources of financing include strategic relationships or private sales of stock.

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

In order to meet its current and long-range capital requirements, the Company anticipates it will be required to raise in the range of \$500,000 - \$1,000,000 by way of private sales of its common stock in the 2010 fiscal year. The Company may seek to access the public equity markets when conditions are favorable due to our long-term capital requirements. We do not have any committed sources of financing at this time nor are there potential strategic relationship agreements in place at this time, and it is uncertain whether additional funding will be available when we need it on terms that will be acceptable to us, or at all. If the Company raises funds by selling additional shares of common stock or other securities convertible into common stock, the ownership interest of our existing stockholders will be diluted. If the Company is not able to obtain financing when needed, it will be unable to carry out its business plan. As a result, the Company will have to significantly limit its operations and its financial condition and results of operations would be materially harmed.

Related Party Transactions

During the twelve months ended June 30, 2008 the Company incurred wages and management fees of \$175,799 with directors of the Company and companies with common directors. The Company paid \$180,504 wages and management fees for the same prior year ended.

Capitalization

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

Issued as of June 30, 2009: 29,414,926 common shares at \$15,079,071

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Options outstanding:

The following summarizes information about the stock options outstanding at June 30, 2009 reflected in US dollar currency:

<u>Number</u>	<u>Number Exercisable</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
986,750	986,750	\$0.65	August 24, 2009
665,000	592,500	\$0.45	January 10, 2010
250,000	250,000	\$0.55	August 9, 2010
<u>40,000</u>	<u>10,000</u>	\$0.05	March 07, 2011
<u>1,941,750</u>	<u>1,839,250</u>		

Critical Accounting Estimates

Stock-based Compensation Charge and Expense

As described in Note 2 to the audited annual financial statements dated June 30, 2008, the Company accounts for all stock-based payments and awards under the fair value based method. This fair value of the stock options is estimated at the date the stock options are granted using the Black-Scholes option-pricing model. Stock-based payments to non-employees is periodically re-measured until counter-party performance is complete and any change is recognized over the life of the award. The Company accounts for share purchase options to employees by recording the fair value of the awards on the grant date and the related stock-based compensation expense is recognized over the period in which the options vest. In addition, this is a non-cash compensation charge and the cash flow effects are realized only at the time of exercise.

Internal Control and Financial Reporting Procedures

The board of directors evaluates and maintains internal control procedures and financial reporting procedures to ensure the safeguarding of Barrier's assets as well as to ensure full, true, accurate and timely disclosure of Barrier's financial position for the fiscal period ended June 30, 2009, which would materially affect the accuracy of this financial report.

There has been no change in internal control procedures in the twelve month period ending June 30, 2009.

Other Matters

As at June 30, 2009 the Company did not have any off-balance sheet arrangements to report.

International Barrier Technology Inc. (the Company) received a preliminary liability and damage report from a New Jersey townhouse association in connection with a lawsuit the association filed against its contractor, engineering consultant, property manager and the Company (the "Defendants"). The lawsuit involved alleged water damage in a 1997/1998 roof replacement project that was allegedly caused by claimed Company product failure along with other alleged deficiencies. The Company first reported on the prospect of this litigation in December 2005. The townhouse association claims that as a result of defective product supplied, and negligent work performed by other named Defendants, the association has suffered damages of US\$5,506,409.46. Repairs, to date, have been limited to certain townhouse units where water stains have appeared in ceiling areas. The damage claimed include the attorney and consultant

fees, and the estimated anticipated future costs for roof repairs on all units including those that have not previously required roof repairs nor have shown any sign of damage.

Subsequent to year end, the Company made a small contribution of \$50,000 to a settlement that was otherwise funded by our insurer. The matter was settled to allow Barrier to focus on future opportunities and was settled without admission of liability. Barrier continues to maintain the issue in this townhouse association was due to improper ventilation of the attic space and that there was no defective product.

The lawsuit by the townhouse association is the first involving the Company in 17 years of manufacturing, selling, and distributing fire-rated products in the United States. Over that time, millions of square feet of the Company's products have been successfully installed for roofing and other applications.