**INTERNATIONAL BARRIER TECHNOLOGY INC.**
QUARTERLY REPORT
for the period ended September 30, 2008

## Management Discussion & Analysis

## Date of Report – November 14, 2008

### 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 quarter ending September 30, 2008 increased 27% to $1,586,567 over the $1,249,431 generated in the same quarter in 2007. Total sales volume, as measured by surface volume of product shipped, was 2,105,500 sq.ft. This is an increase of 12% over the 1,883,300 sq.ft. shipped during the same quarter in the previous year.

Sales into the Residential Roof Deck Market Sector grew this quarter by 68% (524,700 sq. ft. vs. 314,800 sq. ft. in previous year quarter) which was driven by strong growth in shipments into Florida and the MidAtlantic regions. Sales into the Commercial Modular Sector remained consistent year over year at 1,545,000 vs. 1,550,700 sq.ft. Shipments in the Structural Insulated Panel market increased to 35,800 sq.ft. over 17,900 sq. ft. in the comparable time period.

Sales volumes this quarter were higher than any of the individual quarters throughout the previous fiscal year (Jul 07 – Jun 08). While Barrier does not believe one quarter predicts a trend, we do see it as a positive sign that as housing construction slowly turns around; our products continue to be chosen.

Barrier continues to expand the geographic base for Blazeguard sales in the US. Barrier and is actively marketing Blazeguard to the multi-family residential roof deck market in Southern California and in Texas. Barrier is also marketing Blazeguard to single family exterior side wall applications in the wildfire prone areas of California as well. Barrier's wholesale building products distributor in California has invested in Blazeguard inventory (carload shipments to keep freight costs down) and expects to see increased sales to builders and lumber dealers in the coming months.

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 cyclicality in any one region or product application. The broadening of the geographic markets served will help Barrier withstand periodic cyclicality in one market by focusing efforts and providing sales opportunities to others.

As the US building industry continues its recovery throughout early 2009, 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 the quarter was up to $255,151 from $21,367 in the previous year. There was a classification change during the current and prior year to include amortization and R&D in cost of sales. Therefore, the reclassified gross margin, as a percentage of sales revenue increased substantially to 16% in comparison to 2% in the prior year quarter.

This quarter, with the higher volume of production, we captured the efficiencies of the new manufacturing line which directly impacted the growth in the gross margin. The new production line became “fully” operational in October 2007, nearly mid-way through the fiscal year. 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 continue to be noticeable on the bottom line as profits improve substantially.

**Cost of sales** for the quarter July-Sept 2008 increased to $1,331,416 from $1,228,064 in July-Sept 2007, which is attributable to the increased production volume. As mentioned previously, the cost of sales was reclassified to include amortization and R&D expenses in this reporting period. After reclassification, the average cost per sq.ft. of production for the three month period was $0.63 in comparison to $0.65 in the comparable period. For historical comparison purposes and as previously reported, in first quarter this year net of amortization and R&D the average cost of production was $0.58 ($0.55 last year).

R&D expenses which were incurred as new market applications continue to be explored and developed were $6,938 for the current quarter vs. $91,089 in Q1 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 is quickly proving to be a viable opportunity for Fiscal 2009.

Included in cost of sales was amortization on plant and equipment. Amortization increased slightly from $64,964 in 2007 to $67,704 in 2008. 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** in the reported three month period decreased from $259,899 to $255,277. Due to increased volumes, the administrative costs per sq. ft. decreased for the quarter, from $0.14 to $0.12. As volumes continue to increase, a further 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.

Stock-based compensation is included in wages and management fees. This figure is an estimate of the value of stock options awarded to management and key personnel as a portion of their total compensation package (see section: Critical Accounting Estimates below). The Company uses the Black-Scholes formula to calculate the fair value of the stock options. While this reporting is a requirement, and a true reflection of value the company is granting to key personnel, it is a "non-cash" item that does not affect current operating cash flows. Stock-based compensation for this quarter was $9,820, in contrast to $1,212 during the same period in the previous year.

**Accounting and Audit Fees** increased for the three month period ($5,380 in 2008 vs. $1,935 in 2007). This is attributed to increased fees for our annual tax filing expense.

**Insurance costs** have decreased to $24,374 for the reporting period in comparison to $35,511 last year. The difference is due to lower product liability premiums based on the lower volume of sales on an annual basis and timing.

**Interest on Long Term Debt** has increased from $15,177 to $21,054 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 capital requirements.

On July 16, 2008, the Company restructured the revolving bank loan. The terms of the revolving bank facility were modified to include a $500,000 capital loan being amortized by the bank over a ten-year period. Additionally, the bank provided a $500,000 credit facility as an operating line of credit from which the Company has drawn $250,000. The collateral for both of these lines is: the building, property and equipment; cash accounts; accounts receivable; and, inventory.

**Legal fees** increased to $18,799 for the three month period. For the same period in the prior year, legal fees were $13,688. 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.

**Travel, promotion and trade show expenses** increased from $9,618 to $11,168. Sales expenses are expected to continue to grow during Fiscal 2009 with the development of Texas, Kansas City, and both the northern and southern California territories. 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 Insulative 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 $2,327 in interest income and a gain of $3,564 in foreign exchange vs. $6,463 and $39,507, respectively in the prior year quarter.

**Net income.** A net income of $5,765 is being reported for the quarter ending September 30, 2008, whereas in the same period in 2007, a net loss of ($192,562) was reported. Sales volume for the quarter was up and 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:

| | Sept 30 2008 | June 30 2008 | March 31 2008 | Dec 31 2007 | Sept 30 2007 | June 30 2007 | March 31 2007 | Dec 31 2006 | Sept 30 2006 |
|---|---|---|---|---|---|---|---|---|---|
| Volume shipped (MSF) | 2106 | 1891 | 1,893 | 1,555 | 1,883 | 2,273 | 1,643 | 2,252 | 2,692 |
| Total Revenues (000) | $1,587 | $1,349 | $1,214 | $1,065 | $1,249 | $1,434 | $1,068 | $1,643 | $1,985 |
| Operating Income (000) | ($0) | ($143) | ($208) | ($271) | ($239) | ($44) | ($204) | ($181) | ($127) |
| Net income (loss) (000) | $6 | ($134) | ($224) | ($258) | ($193) | $12 | ($191) | ($205) | ($107) |
| EPS (Loss) Per Share | $0.00 | ($0.01) | ($0.01) | ($0.01) | ($0.00) | $0.00 | ($0.01) | ($0.01) | ($0.00) |

**Selected Annual Information**

| The following financial data is for the three most recent years ended June 30: | 2008 | 2007 | 2006 |
|---|---|---|---|
| Total Revenue | $4,878.0 | $6,130.0 | $6,604.4 |
| Net income (loss) | (808.0) | (491.0) | (211.7) |
| Per share | (0.03) | (0.02) | (0.01) |
| Per share, fully diluted | (0.03) | (0.02) | (0.01) |
| Total assets | 5,738.0 | 5,887.9 | 6,172.2 |
| Total long-term financial liabilities | 1,212.3 | 819.4 | 630.0 |
| 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.

In support of the strength requirements for fire and strength rated walls, Barrier completed an extensive testing protocol performed by Progressive engineering, Inc. (PEI), an ICS certified independent testing, certification, and listing laboratory. The results demonstrate Blazeguard’s ability to improve lateral load capability (shear strength for earthquake zones) and include new span and load ratings for both roof and wall applications (allowable vertical load for snow and wind load requirements).

Blazeguard treatment has always been known to increase the strength of the substrate panel, now these strength improvements are certified in a way that will improve an architect’s ability to reach required designed loads in a variety of applications without having to use thicker panels to improve strength.

Barrier has been working with a major insulative 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. While it is still early in the R&D phase, Barrier and the foam producer have developed samples and completed some preliminary fire tests that were very encouraging. Additional fire tests have already been scheduled to be completed prior to the end of the calendar year.

Barrier improved certain elements of the old production line in the current quarter 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.

**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 $208,081.

The Company generated positive operating cash flow for the quarter ended September 30, 2008 of $5,774 in comparison to $78,726 for the quarter ended September 30, 2007. 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.

The Company does not expect any 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.

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.

**Related Party Transactions**
During the three months ended September 30, 2008 the Company incurred wages and management fees of $46,819 with directors of the Company and companies with common directors. The Company paid $41,947 in wages and management fees for the same prior year quarter.

**Capitalization**

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

Issued as of September 30, 2008: 29,414,925 common shares at $15,079,071
Issued as of November 14, 2008: 29,414,925 common shares at $15,079,071

Options outstanding:

The following summarizes information about the stock options outstanding at September 30, 2008 reflected in US dollar currency:

| Number | Number Exercisable | Exercise Price | Expiry Date |
|---|---|---|---|
| 40,000 | 20,000 | $0.38 | March 6, 2009 |
| 986,750 | 986,750 | $0.65 | August 24, 2009 |
| 665,000 | 557,500 | $0.45 | January 10, 2010 |
| 250,000 | 250,000 | $0.55 | August 9, 2010 |
| 1,941,750 | 1,814,250 | | |

**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 quarterly period ended September 30, 2008, which would materially affect the accuracy of this financial report.

There has been no change in internal control procedures in the three month period ending September 30, 2008.

**Other Matters**

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

International Barrier Technology Inc. (the Company) has received a preliminary liability and damage report from a New Jersey townhouse association in connection with a lawsuit the association has filed against its contractor, engineering consultant, property manager and the Company (the "Defendants"). The lawsuit involves 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 damages claimed include the costs of repairs made subsequent to the initial installation work, 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.

The Defendants, through their insurers, have engaged qualified experts to consider the report and to prepare a response to refute it. The townhouse association's request for mediation resulted in the scheduling of a "non-binding" mediation hearing held on May 15, 2007. Counsel for Barrier and the plaintiffs failed to negotiate a resolution during this mediation hearing. The parties continue to negotiate settlement terms but if the parties cannot agree to a settlement, the suit may go to court. The Company carries $1 million of product liability insurance, including the cost of attorney's fees, to protect itself against such claims and has documented that any damage occurring to date was the result of insufficient ventilation and incorrect installation. The Company anticipates that the claim will have no material financial impact on the Company.

The lawsuit by the townhouse association is the first involving the Company in 17 years of product distribution 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.

The Company will report further on this matter as developments occur.

**INTERNATIONAL BARRIER TECHNOLOGY INC.**

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(Stated in US Dollars)

(Unaudited)

**INTERNATIONAL BARRIER TECHNOLOGY INC.**
INTERIM CONSOLIDATED BALANCE SHEETS
September 30, 2008 and June 30, 2008
(Stated in US Dollars)

| ASSETS | September 30, 2008 (unaudited) | June 30, 2008 |
|---|---|---|
| Current | | |
| Cash and cash equivalents | $ 408,501 | $ 436,426 |
| Accounts receivable | 307,173 | 360,417 |
| Inventory – Note 3 | 405,282 | 293,979 |
| Prepaid expenses and deposits | 46,059 | 58,870 |
| | 1,167,015 | 1,149,692 |
| Property, plant and equipment | 4,015,994 | 4,076,017 |
| Patent, trademark and technology rights | 480,663 | 512,267 |
| | $ 5,663,672 | $ 5,737,976 |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable and accrued liabilities | $ 588,944 | $ 652,815 |
| Bank loan facility – Note 4 | 250,000 | - |
| Current portion of obligation under long term debt – Note 5 | 57,726 | - |
| Current portion of obligation under capital leases | 62,264 | 63,994 |
| | 958,934 | 716,809 |
| Bank loan facility – Note 4 | - | 750,000 |
| Long-term debt – Note 5 | 431,707 | - |
| Obligation under capital leases | 384,577 | 398,298 |
| | 1,775,218 | 1,865,107 |
| **STOCKHOLDERS' EQUITY** | | |
| Common stock – Note 6 | | |
| Authorized: | | |
| 100,000,000 common shares without par value | | |
| Issued: | | |
| 29,414,925 common shares (June 30, 2008: 29,414,925 common shares) | 15,079,071 | 15,079,071 |
| Additional paid-in capital – stock-based compensation | 1,012,052 | 1,002,232 |
| Accumulated deficit | (12,202,669) | (12,208,434) |
| | 3,888,454 | 3,872,869 |
| | $ 5,663,672 | $ 5,737,976 |

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
for the three months ended September 30, 2008 and 2007
(Stated in US Dollars)
(Unaudited)

| | Three months ended September 30, 2008 | Three months ended September 30, 2007 |
|---|---|---|
| Sales | $ 1,586,567 | $ 1,249,431 |
| Cost of goods sold | 1,331,416 | 1,228,064 |
| Gross profit | 255,151 | 21,367 |
| Expenses | | |
| Accounting and audit fees | 5,380 | 1,935 |
| Filing fees | - | 1,503 |
| Insurance | 24,374 | 35,511 |
| Interest and bank charges | 17 | 41 |
| Interest on long-term debt | 21,054 | 15,177 |
| Legal fees | 18,799 | 13,688 |
| Office and miscellaneous | 17,417 | 18,672 |
| Sales, marketing, and investor relations | 5,064 | 4,350 |
| Telephone | 3,332 | 2,673 |
| Transfer agent fees | 1,606 | 2,388 |
| Travel, promotion and trade shows | 11,168 | 9,618 |
| Wages and management fees – Notes 6 and 7 | 147,066 | 154,343 |
| | 255,277 | 259,899 |
| Loss before other items | (126) | (238,532) |
| Other income | 5,891 | 45,970 |
| Net income (loss) and comprehensive income (loss) for the period | $ 5,765 | $ (192,562) |
| Basic and diluted loss per share | $ 0.00 | $ (0.00) |
| Weighted average number of shares outstanding | 29,414,925 | 29,414,925 |

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three months ended September 30, 2008 and 2007
(Stated in US Dollars)
(Unaudited)

| | Three months ended September 30, 2008 | 2007 |
|---|---|---|
| Operating Activities | | |
| Net income (loss) for the period | $ 5,765 | $ (192,562) |
| Changes not involving cash: | | |
| Amortization – plant and equipment | 67,704 | 64,964 |
| – trademark and technology costs | 31,604 | 31,604 |
| Stock-based compensation | 9,820 | 1,212 |
| Changes in non-cash working capital: | | |
| Accounts receivable | 53,244 | (16,591) |
| Prepaid expenses | 12,811 | 18,359 |
| Inventory | (111,303) | 128,699 |
| Accounts payable and accrued liabilities | (63,871) | 43,041 |
| Cash provided by operations | 5,774 | 78,726 |
| Investing Activity | | |
| Acquisition of plant and equipment | (7,681) | (343,726) |
| Financing Activities | | |
| Demand loan | - | 209,078 |
| Long-term debt | (10,567) | - |
| Capital lease obligations | (15,451) | (15,257) |
| Cash provided by (used in) financing activities | (26,018) | 193,821 |
| Change in cash and cash equivalents during the period | (27,925) | (71,179) |
| Cash and cash equivalents, beginning of the period | 436,426 | 557,316 |
| Cash and cash equivalents, end of the period | $ 408,501 | $ 486,137 |
| Supplementary cash flow information: | | |
| Cash paid for: | | |
| Interest | $ 19,492 | $ 15,201 |
| Income taxes | $ - | $ 1,500 |

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**
INTERIM CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
for the period ended September 30, 2008
(Stated in US Dollars)
(Unaudited)

| | Common Stock Issued Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Total |
|---|---|---|---|---|---|
| Balance, June 30, 2007 | 29,414,925 | $ 15,079,071 | $ 954,903 | $ (11,400,084) | $ 4,633,890 |
| Stock-based compensation charges | - | - | 47,329 | - | 47,329 |
| Net loss for the period | - | - | - | (808,350) | (808,350) |
| Balance, June 30, 2008 | 29,414,925 | 15,079,071 | 1,002,232 | (12,208,434) | 3,872,869 |
| Stock-based compensation charges | - | - | 9,820 | - | 9,820 |
| Net income for the period | - | - | - | 5,765 | 5,765 |
| Balance, September 30, 2008 | 29,414,925 | $ 15,079,071 | $ 1,012,052 | $ (12,202,669) | $ 3,888,454 |

SEE ACCOMPANYING NOTES

Note 1 Nature of Operations

The Company develops, manufactures and markets proprietary fire resistant building materials branded as Blazeguard in the United States of America and, as well, the Company owns the exclusive U.S. and international rights to the Pyrotite fire retardant technology.

These financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its obligations and commitments in the normal course of operations. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At September 30, 2008, the Company had an accumulated deficit of $12,202,669 (June 30, 2008 - $12,208,434) since its inception and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due Management expects the Company's operating cash requirement over the twelve-month period ended September 30, 2009 to be approximately $6,500,000. Management has no formal plan in place to address this concern but is considering obtaining additional funds by debt financing to the extent there is a shortfall from operations. While the Company is expending its best efforts to achieve the above plans, there is no assurance that any such activity will generate funds for operations.

The Company was incorporated under the British Columbia Company Act and is publicly traded on the TSX Venture Exchange in Canada ("TSX") and the OTC Bulletin Board in the United States of America.

These statements reflect all adjustments, consisting of normal recurring adjustments, which in the opinion of management are necessary for fair presentation of the information contained therein. It is suggested that these interim consolidated financial statements be read in conjunction with the audited consolidated financial statements of the Company for the year ended June 30, 2008. The interim results are not necessarily indicative of the operating results expected for the full fiscal year ending on June 30, 2009. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures herein are adequate to make the information presented not misleading.

(Unaudited - Stated in US Dollars) – Page 2

Note 2 Recently Adopted Accounting Policies

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This Statement defines fair value as used in numerous accounting pronouncements, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure related to the use of fair value measures in financial statements. The Company adopted SFAS 157 effective July 1, 2008. The adoption of SFAS 157 did not have a material effect on the Company's financial position, results of operations or cash flows.

On February 15, 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities". This Statement establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The Company adopted SFAS 159 effective July 1, 2008. The adoption SFAS 159 did not have a material effect on the Company's financial position, results of operations or cash flows.

Note 3 Inventory

| | September 30 2008 (unaudited) | June 30 2008 |
|---|---|---|
| Raw materials | $ 205,084 | $ 223,750 |
| Finished goods | 200,198 | 70,229 |
| | $ 405,282 | $ 293,979 |

Note 4 Bank Loan Facility

| | September 30 2008 (unaudited) | June 30 2008 |
|---|---|---|
| Revolving bank loan facility in the amount of $500,000 bearing interest at 7.5% and secured by a security interest in inventory, accounts receivable, equipment and all intangibles of the Company as well an assignment of the building lease. The balance is due on August 1, 2009 | $ 250,000 | $ 750,000 |

During the three months ended September 30, 2008, the terms of the revolving bank facility was modified to include a $500,000 capital loan being amortized by the bank over a 10 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 $250,000.

(Unaudited - Stated in US Dollars) – Page 3

Note 5 Long-term debt

| | | September 30 2008 (unaudited) | | June 30 2008 |
|---|---|---|---|---|
| Capital loan bearing interest at 7 % per annum and secured by a charge over the building and property and equipment. The loan is repayable in monthly amounts of $7,550 up to July 1, 2012 at which time the remaining loan balance of $250,209 is due. | $ | 489,433 | $ | - |
| Less: current portion | | (57,726) | | - |
| | $ | 431,707 | $ | - |

Principal payments over the next 4 years are as follows:

| | | |
|---|---|---|
| 2009 | $ | 42,973 |
| 2010 | | 60,863 |
| 2011 | | 65,326 |
| 2012 | | 320,271 |
| | $ | 489,433 |

Note 6 Share Capital

Escrow:

At September 30, 2008, there are 48,922 (June 30, 2008 – 48,922) shares are held in escrow by the Company's transfer agent. These shares are issuable in accordance with a time release clause in the escrow share agreement. As at September 30, 2008 and June 30, 2008, all of the shares held in escrow are issuable but the Company has yet to request their release.

Commitments:

Stock-based Compensation Plan

At September 30, 2008, the Company has outstanding options that were granted to directors, officers and consultants the option to purchase 1,941,750 common shares of the Company.

(Unaudited - Stated in US Dollars) – Page 4

Note 6 Share Capital – (cont'd)

Commitments: - (cont'd)

Stock-based Compensation Plan – (cont'd)

A summary of the status of company's stock option plan for the three months ended September 30, 2008 is presented below:

| | Number of Shares | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, June 30, 2008 | 2,107,550 | $0.56 |
| Cancelled | (109,550) | $0.62 |
| Forfeited | (56,250) | $0.45 |
| Outstanding, September 30, 2008 | 1,941,750 | $0.56 |
| Exercisable, September 30, 2008 | 1,814,250 | $0.57 |
| Exercisable, June 30, 2008 | 1,870,050 | $0.58 |

The following summarizes information about the stock options outstanding at September 30, 2008:

| Number | Exercise Price | Expiry Date |
|---|---|---|
| 40,000 | $0.38 | March 6, 2009 |
| 986,750 | $0.65 | August 24, 2009 |
| 665,000 | $0.45 | January 10, 2010 |
| 250,000 | $0.55 | August 9, 2010 |
| 1,941,750 | | |

During the three months ended September 30, 2008, a compensation charge included in wages and management fees associated with the grant of stock options in prior years in the amount of $9,820 (2007: $1,212) was recognized in the financial statements.

(Unaudited - Stated in US Dollars) – Page 5

Note 7 Related Party Transactions

The Company was charged the following by directors of the Company or private companies with common directors during the three months ended September 30, 2008 and 2007:

| | Three months ended September 30, 2008 | Three months ended September 30, 2007 |
|---|---|---|
| Wages and management fees | $ 46,819 | $ 41,947 |

Note 8 Segmented Information and Sales Concentration

The Company operates in one industry segment being the manufacturing and marketing of fire resistant building materials. During the three months ended September 30, 2008, the Company earned sales revenue of $1,586,567 (2007: $1,249,431), all of which was earned in the United States of America.

The Company's long lived assets are located in each of the United States and Canada as follows:

| | September 30, 2008 (unaudited) | June 30, 2008 |
|---|---|---|
| Canada | $ 458,329 | $ 489,579 |
| United States | 4,038,328 | 4,098,705 |
| Total | $ 4,496,657 | $ 4,588,284 |

During the three months ended September 30, 2008, two customers accounted for 82%(each representing 70% and 12%, respectively) of sales revenue. The amounts receivable from each of these customers at September 30, 2008 were $141,648 and $35,912 respectively. During the three months ended September 30, 2007, one customer accounted for 81% of the Company's sales. The loss of any of these customers or the curtailment of purchases by such customers could have a material adverse effect on the Company's financial condition and results of operations.

Note 9 Contingent Liability

The Company is a defendant in a lawsuit claiming damages for defective building materials wherein the plaintiff has claimed approximately $5,400,000 from the Company. In the opinion of management, this lawsuit is without merit. The Company has liability insurance for up to $1,000,000.

Note 10 Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current period's presentation.