QUARTERLY REPORT for the period ended December 31, 2008

Management Discussion & Analysis

Date of Report – February 17, 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 (PyrotiteTM) 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.

<u>Sales</u> revenue reported for the quarter ending December 31, 2008 increased 5.5% to \$1,123,344 over the \$1,065,096 generated in the same quarter in 2007. Year-to-date sales are 17% higher at \$2,709,911 vs. \$2,314,527. Total sales volume, as measured by surface volume of product shipped, was 1,578,600 sq.ft. This is a slight increase over the 1,555,200 sq.ft. shipped during the same quarter in the previous year. Sales for the six months ending December 31, 2008 (fiscal year to date) increased 7% at 3,684,100 sq.ft. vs. 3,438,500 sq.ft. for the same period in 2007: an increase of 245,600 sq.ft. Of the total shipped volume, 2,758,800 sq.ft. was to commercial modular, 880,400 sq.ft. into residential roof deck, and 44,800 sq.ft. into Structural Insulated Panels.

Sales into the Residential Roof Deck Market Sector grew this quarter by 35% (355,800 sq. ft. vs. 263,900 sq. ft. in previous year quarter) which was again driven by strong growth in shipments into Florida and the MidAtlantic regions. Sales into the Commercial Modular Sector also grew year over year at 1,263,800 vs. 1,213,900 sq.ft. Shipments in the Structural Insulated Panel market increased to 27,500 sq.ft. over 9,000 sq. ft. in the comparable time period.

Sales volumes have increased year-to-year in both quarters of this fiscal year. While Barrier does not believe even two quarters predict 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. 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 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. We are looking to add sales representation and product distribution in Oregon, Washington, and Colorado within the next quarter.

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 \$196,644 for the quarter ending December 31, 2008 and \$451,795 for the six month period (\$27,758 and \$49,125 respectively in 2007). 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 17% in comparison to 2% in the prior year quarter largely as a result of obtaining greater manufacturing efficiencies from the operation of the new manufacturing line.

This period, 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. 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.

<u>Cost of sales</u> in the three and six month periods ending December 31, 2008 decreased to \$926,700 and \$2,258,116 from \$1,037,338 and \$2,265,402 in the previous year. The decrease is attributable to gaining efficiency in operations. As mentioned previously, the cost of sales was reclassified to include amortization and R&D expenses in this reporting period. After reclassification, the year-to-date average cost per sq.ft. of production was \$0.61 in comparison to \$0.66 in the comparable period.

R&D expenses which were incurred as new market applications continue to be explored and developed were \$2,133 for the current quarter vs. \$91,089 in Q1 2008. The significant decrease in research and development expenses is attributable to the Company's cost management due to its necessity to conserve cash as well as the fact that the significant R&D expenses associated with the implementation of the new line have been incurred and there is no longer a need for substantial R&D expenditures. Barrier continues to invest in R&D to potentially develop other markets for PyrotiteTM and Blazeguard® products for future diversification, while keeping the expenses as low as possible. Directly applying PyrotiteTM to foam insulation is quickly proving to be a viable opportunity for Fiscal 2009.

Included in cost of sales was depreciation on plant and equipment. Depreciation increased slightly from \$194,011 in 2007 to \$198,616 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 and six month period decreased from \$298,695 and \$558,594, respectively to \$290,310 and \$545,587. Due to increased volumes and declining expenses, the administrative costs per sq. ft. decreased for the quarter, from \$0.19 to \$0.18 and from \$0.16 to \$0.15 for the year-to-date period. 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.

<u>Accounting and Audit Fees</u> increased in the quarter ending December 31, 2008 vs. the same time period last year (\$41,786 vs. \$20,403) and increased year-to-date (\$47,166 vs. \$22,338). This is attributed to timing and increase of year-end audit fees due to regulatory compliance with Sarbanes-Oxley.

<u>Insurance costs</u> have decreased to \$11,026 for the three months and \$35,400 for six months in comparison to \$32,340 and \$67,851 the previous year. The difference is due primarily to lower product liability premiums.

<u>Interest on Long Term Debt</u> has increased slightly from \$19,826 to \$20,669 for the reporting period (from \$35,003 to \$41,723 year-to-date). 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.

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 seven-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.

<u>Legal fees</u> increased to \$21,814 for the three month period and \$40,613 for the six months ending December 31, 2008. For the same period in the prior year, legal fees were \$9,698 and \$23,386 respectively. 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 remained consistent for the three month period (\$11,134 vs. \$12,393) and also for the six month period end December 31, 2008 (\$22,302 vs. \$22,011). Sales expenses are expected to grow during Fiscal 2009 with 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 preapproved 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 \$1,727 in interest income and (\$72,140) in foreign exchange loss. Year-to-date, the interest income is \$4,054 and the foreign exchange loss is (\$68,576). The Canadian dollar depreciated substantially during this past quarter. To compare, for the same reporting period last year, foreign exchange was a positive \$5,660 for the quarter and \$45,167 year-to-date, a swing of \$113,743 for the six month period.

Net Loss. A net loss of (\$164,079) is being reported for the quarter ending December 31, 2008, whereas in the same period in 2007, a net loss of (\$258,434) was reported. For the six months ending December 31, 2008, the net loss is (\$158,314) vs. (\$450,995) in the prior year. This represents an improvement of \$292,681 in the net income, on top of absorbing the \$113,743 negative foreign exchange movement. 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.

<u>Summary of Quarterly Results.</u> The following is a summary of the Company's financial results for the nine most recently completed quarters:

	Dec 31	Sept 30	June 30	March 31	Dec 31	Sept 30	June 30	March 31	Dec 31
	2008	2008	2008	2008	2007	2007	2007	2007	2006
Volume shipped (MSF)	1,578	2,106	1,891	1,893	1,555	1,883	2,273	1,643	2,252
Total Revenues (000)	\$1,123	\$1,587	\$1,349	\$1,214	\$1,065	\$1,249	\$1,434	\$1,068	\$1,643
Operating Income (000)	(\$94)	(\$0)	(\$143)	(\$208)	(\$271)	(\$239)	(\$44)	(\$204)	(\$181)
Net income (loss) (000)	(\$164)	\$6	(\$134)	(\$224)	(\$258)	(\$193)	\$12	(\$191)	(\$205)
EPS (Loss) Per Share	(\$0.01)	\$0.00	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.00)	\$0.00	(\$0.01)	(\$0.01)

Selected Annual Information

The following financial data is for the three most			
recent years ended June 30:	<u>2008</u>	<u>2007</u>	<u>2006</u>
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 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. 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 during the first quarter of 2009.

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 \$114,157, which was consistent with the same period in 2007, however; the distribution between inventory, accounts receivable and payable, and cash within changed.

The Company generated negative operating cash flow for the six months ended December 31, 2008 of (\$215,946) in comparison to a positive \$64,908 for the same six month period in 2007. The negative operating cash flow was largely caused by Barrier reducing accounts payable to a more manageable and seasonally adjusted balance. 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 six months ended December 31, 2008 the Company incurred wages and management fees of \$90,642 with directors of the Company and companies with common directors. The Company paid \$94,599 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 December 31, 2008: 29,414,925 common shares at \$15,079,071 Issued as of February 5, 2009: 29,414,925 common shares at \$15,079,071

Options outstanding:

The following summarizes information about the stock options outstanding at December 31, 2008 reflected in US dollar currency:

<u>Number</u>	Number <u>Exercisable</u>	Exercise Price	Expiry <u>Date</u>
40,000	40,000	\$0.38	March 6, 2009
986,750	986,750	\$0.65	August 24, 2009
665,000	557,500	\$0.45	January 10, 2010
<u>250,000</u>	<u>250,000</u>	\$0.55	August 9, 2010
1,941,750	1,834,250		

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 six month period ended December 31, 2008, which would materially affect the accuracy of this financial report.

There has been no change in internal control procedures in the six month period ending December 31, 2008.

Other Matters

As at December 31, 2008 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\$5,400,000. 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.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

(Stated in US Dollars)

(<u>Unaudited</u>)

INTERIM CONSOLIDATED BALANCE SHEETS December 31, 2008 and June 30, 2008

(Stated in US Dollars)
(Unaudited)

<u>ASSETS</u>	December 31, <u>2008</u>	June 30, 2008			
Current Cash and cash equivalents Accounts receivable Inventory – Note 3 Prepaid expenses and deposits	\$ 155,954 266,791 384,612 54,611	\$ 436,426 360,417 293,979 58,870			
Property, plant and equipment Patent, trademark and technology rights	861,968 3,948,290 449,059	1,149,692 4,076,017 512,267			
	\$ 5,259,317	<u>\$ 5,737,976</u>			
<u>LIABILITIES</u>					
Current Accounts payable and accrued liabilities Bank loan facility – Note 4 Current portion of obligation under long term debt – Note 5 Current portion of obligation under capital leases Long-term debt – Note 5 Obligation under capital leases	\$ 379,495 250,000 58,753 59,563 747,811 416,608 370,523 1,534,942	\$ 652,815 			
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) Additional paid-in capital – stock-based compensation Accumulated deficit	15,079,071 1,012,052 (12,366,748) 3,724,375	15,079,071 1,002,232 (12,208,434) 3,872,869			
	\$ 5,259,317	\$ 5,737,976			

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS for the three and six months ended December 31, 2008 and 2007 (Stated in US Dollars) (Unaudited)

		onths ended mber 31, 2007	Six month December 2008	
Sales Cost of goods sold	\$ 1,123,344 926,700		\$ 2,709,911 2,258,116	\$ 2,314,527 2,265,402
Gross profit	196,644	27,758	451,795	49,125
Administrative expenses	44 =0.5	20.402		
Accounting and audit fees	41,786		47,166	22,338
Consulting fees	-	2,500	-	2,500
Filing fees	8,445		8,445	15,523
Insurance	11,026	· ·	35,400	67,851
Interest and bank charges	36		53	48
Interest on long-term debt	20,669		41,723	35,003
Legal fees	21,814	9,698	40,613	23,386
Office and miscellaneous	24,392	15,943	41,809	34,615
Sales, marketing, and investor relations	6,108	8,546	11,172	12,896
Telephone	2,900	3,361	6,232	6,034
Transfer agent fees	7,673	9,228	9,279	11,616
Travel, promotion and trade shows	11,134	12,393	22,302	22,011
Wages and management fees – Notes 6 and 7	134,327	150,430	281,393	304,773
	290,310	298,695	545,587	558,594
Loss before other items	(93,666	(270,937)	(93,792)	(509,469)

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INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

Continued

for the three and six months ended December 31, 2008 and 2007 (Stated in US Dollars) (Unaudited)

	Three months ended December 31,			ths ended aber 31,
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Loss before other items – brought forward	(93,666)	(270,937)	(93,792)	(509,469)
Other items:				
Foreign exchange gain (loss)	(72,140)	5,660	(68,576)	45,167
Other income (expenses)	1,727	6,843	4,054	13,307
	(70,413)	12,503	(64,522)	58,474
Net loss and comprehensive loss for the period	<u>\$ (164,079)</u>	\$ (258,434)	<u>\$ (158,314)</u>	\$ (450,995)
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Weighted average number of shares outstanding	29,414,925	29,414,925	29,414,925	29,414,925

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

for the six months ended December 31, 2008 and 2007 (Stated in US Dollars)

(Unaudited)

	Six months ended December 31,			
		<u>2008</u>		<u>2007</u>
Operating Activities				
Net loss for the period	\$	(158,314)	\$	(450,995)
Changes not involving cash:	Ψ.	(100,011)	Ψ	(.00,550)
Amortization – plant and equipment		135,408		131,039
- trademark and technology costs		63,208		62,972
Stock-based compensation		9,820		1,901
Changes in assets/liabilities:		7,020		1,501
Accounts receivable		93,626		79,323
Prepaid expenses		4,259		7,920
Inventory		(90,633)		82,138
Accounts payable and accrued liabilities		(273,320)		150,610
recounts payable and accrace nationities		(273,320)		150,010
Cash provided by operations		(215,946)		64,908
Investing Activity				
Acquisition of property, plant and equipment		(7,681)		(512,300)
Financing Activities				
Demand loan		-		409,000
Repayment of long term debt obligations		(24,639)		-
Repayment of capital lease obligations		(32,206)		(32,970)
Cash provided by (used in) financing activities		(56,845)		376,030
Change in cash during the period		(280,472)		(71,362)
Cash and cash equivalents, beginning of the period		436,426		557,316
Cash and cash equivalents, end of the period	\$	155,954	\$	485,954
Supplementary cash flow information: Cash paid for:				
Interest	<u>\$</u>	41,723	\$	32,902
Income taxes	\$	<u> </u>	\$	1,250

INTERIM CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

for the period ended December 31, 2008 (Stated in US Dollars) (<u>Unaudited</u>)

	Common Stock		Additional		
	Issued		Paid-in		
	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Deficit</u>	<u>Total</u>
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 loss for the period			-	(158,314)	(158,314)
Balance, December 31, 2008	29,414,925	<u>\$ 15,079,071</u>	\$ 1,012,052	<u>\$ (12,366,748</u>)	\$ 3,724,375

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2008
(Stated in US Dollars)
(Unaudited)

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 December 31, 2008, the Company had an accumulated deficit of \$12,366,748 (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 December 31, 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 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.

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.

In February, 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.

In December 2007, the SEC issued Staff Accounting Bulletin ("SAB") No. 110. SAB 110 expresses the views of the SEC regarding the use of a "simplified" or "shortcut" method, as discussed in SAB No. 107, "Share-Based Payment", in developing an estimate of expected term of "plain vanilla" share options in accordance with SFAS No. 123R. The Company adopted SAB 110 on the date it became effective, January 1, 2008. The Company does not expect the adoption of SAB 110 to have a material effect on its results of operations and financial condition.

In April 2008, the FASB issued FSP 142-3, "Determination of the Useful Life of Intangible Assets." This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets." The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141 (Revised 2007), "Business Combinations," and other U.S. generally accepted accounting principles (GAAP). This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is in the process of evaluating the impact, if any, of SFAS 162 on its financial statements.`

In May 2008, FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for non-governmental entities. SFAS No. 162 is effective 60 days following the U.S. Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, the meaning of "Present Fairly in Conformity with GAAP"...

Note 3 <u>Inventory</u>

		Γ	December 31 <u>2008</u>			ne 30 2008
	Raw materials Finished goods	\$	156,822 227,790	\$		23,750 70,229
		\$	384,612	<u>\$</u>	29	<u> 3,979</u>
Note 4	Bank Loan Facility					
			December 2008	· 31		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		\$ <u>250,00</u>	00	\$	<u>750,000</u>

During the six months ended December 31, 2008, the terms of the revolving bank facility were 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.

Note 5 <u>Long-term debt</u>

	De	ecember 31, 2008		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.	\$	475,361	\$	-
Local aurent partian		(50 752)		
Less: current portion		(58,753)	_	
	\$	416,608	<u>\$</u>	
Principal payments over the next 4 years are as follows:				
2009			\$	58,753
2010			Ψ	63,062
2011				67,685
2012				285,861
			\$	475,361

Note 6 Share Capital

Escrow:

At December 31, 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 December 31, 2008 and June 30, 2008, all of the shares held in escrow were issuable but the Company had yet to request their release.

Commitments:

Stock-based Compensation Plan

At December 31, 2008, the Company has outstanding options that were granted to directors, officers and consultants the option to purchase 1,941,750 common shares (June 30, 2008: 2,107,550 common shares) of the Company.

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 six months ended December 31, 2008 is presented below:

•	Number of Shares	Weighted Average Exercise <u>Price</u>
Outstanding, June 30, 2008 Cancelled Forfeited	2,107,550 (109,550) (56,250)	\$0.56 \$0.62 <u>\$0.45</u>
Outstanding, December 31, 2008	1,941,750	<u>\$0.56</u>
Exercisable, December 31, 2008	1,834,250	<u>\$0.57</u>
Exercisable, June 30, 2008	1,870,050	<u>\$0.58</u>

The following summarizes information about the stock options outstanding at December 31, 2008:

<u>Number</u>	Exercise <u>Price</u>	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
<u>1,941,750</u>		-

During the six months ended December 31, 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: \$1,901) was recognized in the financial statements.

Note 7 Related Party Transactions

The Company was charged the following by directors of the Company or private companies with common directors during the six months ended December 31, 2008 and 2007:

Six mor	iths ended
Decei	mber 31
<u>2008</u>	<u>2007</u>
00.640	Φ 04.50

Wages and management fees

\$ 90,642 \$ 94,599

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 six months ended December 31, 2008, the Company earned sales revenue of \$2,709,911 (2007: \$2,314,527), all of which were 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:

	D	December 31, <u>2008</u>		June 30, 2008	
Canada United States	\$	427,079 3,970,270	\$	489,579 4,098,705	
Total	<u>\$</u>	4,397,349	\$	4,588,284	

During the six months ended December 31, 2008, two customers accounted for 81% (each representing 72% and 9%, respectively) of sales revenue. The amounts receivable from each of these customers at December 31, 2008 were \$67,591 and \$34,303 respectively. During the six months ended December 31, 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 <u>Contingent Liability</u>

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. At this time, the ultimate outcome of the contingent liability is indeterminable. A loss, if any, will be recognized in the period in which a negative outcome is likely.

Note 10 <u>Comparative Figures</u>

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