



DUTTON ASSOCIATES

INDEPENDENT RESEARCH

RESEARCH REPORT

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International Barrier Technology Inc.

April 2, 2007

Symbol (OTCBB)	IBTGF	Fiscal Year Ending: June					
Industry:	Industrial & Manufacturing	Year	EPS	P/E	REVS	PSR	
Recent Price:	\$0.40	2005	A (\$0.04)	---	x \$4.4	2.7	x
52-Week Price Range:	\$0.34 - \$0.80	2006	E ---	---	x \$7.0	1.7	x
Target Price (12 Months)	\$0.84	2007	E \$0.01	40.0	x \$8.6	1.4	x
Avg. Daily Vol. (3 mo.):	67,674	2008	E \$0.07	5.7	x \$15.4	0.8	x
		2009	E \$0.09	4.4	x \$25.4	0.5	x

Balance Sheet Data (mil)	12/31/06	Ownership and Valuation (mil)	Current Rating History		
Cash Equivalent:	\$0.6	Shares Outstanding:	29.41	Date Assigned:	4/2/07
Working Capital:	\$0.8	Inside Ownership:	32%	Price at Rating:	\$0.40
Long-Term Liabilities:	\$0.0	Institutional Ownership:	15%	Original Price Target:	\$0.84
Shareholders' Equity:	\$4.8	Equity Market Value:	\$11.8	Time Frame:	12 Months

Updated Initial Report

Rating: Strong Speculative Buy

Basis for Rating

- International Barrier Technology Inc. (Barrier) produces and markets Pyrotite®, a proprietary chemical formulation that has superior fire-retardant properties. Pyrotite is applied as a coating to plywood or other substrate panels that are sold to builders of new multi-family housing units and the commercial modular market. The finished product is branded as Blazeguard®.
- In the fiscal year ending June 30, 2006, the Company shipped 7.89 million square feet, or 16% of rated capacity. Fiscal 2006 square foot shipments were 53% above fiscal 2005 shipments of 5.16 million square feet. Revenues for the fiscal year ending June 30, 2006, were \$6.6 million, compared to \$4.4 million in fiscal 2005.
- Shipments in the second fiscal quarter ending December 31, 2006, were 2.251 million square feet, or 24% above the comparable 2005 quarter of 1.820 million square feet.
- We estimate that in the second half of fiscal 2007, for the six-month period ending June 30, 2007, the Company will ship 4.35 million square feet, down from 4.42 million square feet in fiscal 2006.
- We estimate that revenues, including substrate revenues, in the fiscal year ending June 30, 2008, will be \$15.4 million, up from an estimated \$7.02 million in fiscal 2007. The increase reflects an anticipated recovery in multi-family construction late in calendar 2007. Net income is estimated to be \$2.01 million, versus a loss of \$171,441 in the prior fiscal year.
- The common stock price, currently trading in the low \$0.40 per share range, is 43% of the 2006 high of \$0.70 per share. We believe the stock in fiscal 2008 will exceed the high of 2006, assuming a recovery in the multi-family housing market during the 2008 fiscal year. Our 12-month target price is \$0.84 per share or 110% above the current level.

Pyrotite

Barrier produces and markets Pyrotite, a proprietary chemical formulation that has fire-retardant properties. When applied to plywood or other building material substrates, such as oriented strand board (OSB) or particleboard, the end product, branded as Blazeguard, prevents ignition and inhibits the spread of flames and smoke. The end product is stronger than chemically treated competing material. Blazeguard is a so-called “green” product: It is a nontoxic, noncombustible, inorganic chemical formulation and does not mold or mildew. The base component is a powder, which is mixed with a liquid and chopped fiberglass. The mixture is cured and applied or bound to a plywood panel or other substrates to form a solid coating. Notably, the substance contains molecularly bound water. The water molecules are released and vaporize when exposed to temperatures that are high, as in a fire, but that are below the kindling temperature of the substrate. Pyrotite exceeds building code fire-retardant standards by a wide margin. Relative to traditional fire retardant solutions, Pyrotite is arguably a superior product that is competitively priced.

Recent Operating Results

As reported in the 10Q filing for the second fiscal quarter ending December 31, 2006, revenues, including substrate revenues, were \$1.64 million, compared to \$1.61 million in the prior-year period. Net income was a loss of \$205,000 versus a loss of \$184,000 in the comparable fiscal 2007 period. Table 1 displays the profit and loss results for the second fiscal quarter ending December 31, 2006.

Table 1. Profit and Loss December 31 Quarter, 2005 and 2006
(Figures in millions, except surface volume)

	<u>12/31/2006</u>	<u>% of Sales</u>	<u>12/31/2005</u>	<u>% of Sales</u>
Surface Volume Shipped (mil sq.ft.)		2,251,800		1,820,000
Sales	1.64	100.0	1.61	100.0
Cost of Goods Sold	1.32	80.1	1.29	80.0
Gross Profit	0.33	19.9	0.32	20.0
Expenses				
General & Administration Costs	0.377	22.9	0.448	27.8
Operating Expenses	0.130	7.9	0.063	4.8
Total Expenses	0.507	30.9	0.511	31.7
Operating Loss	-0.180	10.9	-0.188	11.6
Other Income/expense	-0.025	nominal	0.004	nominal
Net Loss	-0.205	12.5	-0.184	11.4
Loss Per Share	(\$0.01)		-0.01	

Source: Dutton Associates and SEC Filing

The Company had positive cash flow of \$6,371 after adding back the non-cash charges of amortization, stock based compensation and changes in non-cash capital items.

The soft multi-family construction market has caught up with Barrier. Square footage shipped in the December 31, 2006, quarter was 23.7 % above the prior year period. However, the December quarter shipments were below those of the prior quarter ending September 30, 2006. Shipments in the September quarter were 2,691,800 square feet compared to the December quarter volume of 2,251,800 square feet. The slowdown in multi-family builder demand is expected to continue for the next two quarters as Barrier’s building customers work off their inventories.

The decline in multi-family starts is offset by continued demand in the Company’s commercial modular market. Barrier has an exclusive relationship with MuleHide Products, a subsidiary of ABC Supply Company. MuleHide sells, under its

own label, Barrier roof deck assemblies. Commercial modular sales accounted for approximately 40% of the Company's surface volume shipments in the December quarter.

Liquidity

The Company closed the December 31, 2006 quarter in a strong financial position, particularly with the expectation of positive cash flow in future periods. In fiscal 2006, the Company raised \$1.06 million through the issuance of 1,744,600 common shares. The Company had cash and equivalents of \$595,000 on December 31, 2006. Current assets of \$1.205 million were 2.7 times current liabilities. Working capital was \$753,000. The Company has only nominal long-term debt. Shareholders' equity on December 31, 2006, was \$4.765 million, or \$0.16 per share.

Existing and New Products

The Company's principal product is a roof deck panel sold to builders of multi-family housing. Recently, the Company has offered multi-family builders structural insulative panels (SIPs). In development are wall assemblies, field-applied paint and fire-rated, field-applied mold/mildew/termite resistant paint.

Customers

The Company's existing and potential customers are multi-family builders primarily in the growth markets that include Florida, Southern California, Arizona and Texas. The Company is also represented in New England, the Midwest and Mid-Atlantic.

The Company also provides MuleHide customers with roof decks for commercial modular buildings. MuleHide markets the product under its own label.

Gross Margin Computation

There are two factors influencing Barrier's gross profitability.

The first factor is the impact of the increasing production of the new line. The line began production in March 2005; however, it has not been without start-up problems. The older line has been providing the larger share of production as demand was increasing significantly in the last two quarters. In the June quarter, production from the new line was only 19% of output. In the first fiscal quarter ending September 30, 2006, the new line production represented 33% of output. Probably, over the next six months, the new line output will increasingly replace the need for production from the old line. It is important that it does, since the old line is operating at its capacity. Higher production from the new line will be required to meet the market demand expected as a recovery in multi-family construction occurs.

Eventually, the older line will be limited to product development projects and special orders. The relevance of this shift to the new line is the improvement in efficiency that is designed into the new capacity. Margin improvement can be expected from the lower waste of raw materials due to less spoilage. Also, labor costs per unit of output are lower on the new high-speed, highly automated line.

The second influence on gross profitability is the impact of substrate pricing. There could be a masking of the operational efficiencies of the new line because of the Company's method of product pricing. The plywood and/or sheetrock substrates that are coated with Pyrotite material are commodities characterized by frequent price changes in both directions. For example, in the past 12 months, a representative substrate product sold at a high of \$0.41 per square feet to a low of \$0.16 per square feet. In pricing the finished panels, the Company increases or reduces its selling prices to reflect the current cost of the substrate. The substrate is marked up the nominal amount of approximately \$0.025 per square feet for handling. The real profit is in the gross margin of the value-added Pyrotite panel coating. The cost of treating the

substrate and associated material costs to create the finished product are priced at a constant percentage in the area of 68% of sales, resulting in a gross margin of 32%. The consequence of this pricing practice is that there is a potential to experience fluctuations in substrate gross margins as a percentage of sales, which does not positively or negatively impact the absolute dollars of gross profit. In a period of rising prices, the substrate cost reflects a higher percentage of the finished product cost. However, the cost is recovered by a proportionate increase in pass-through selling prices. Over the past 12 months, substrate prices have been declining; consequently, dollar sales have been below our earlier projection.

License Agreements

Since the Company acquired the world technology rights to Pyrotite in May 2004, there have been expressions of interest from potential licensees in China, Saudi Arabia, Mexico, Ireland, Great Britain and New Zealand. The Company's strategy has been to delay entering into agreements until the new production line is operational and all patents involving the process of Pyrotite production have been applied for. The goal of any agreements will be to protect the technology, prohibit competition and provide for ongoing royalty payments.

We have not included royalty payments in our revenue projections; however, the long-term potential for global royalty income can be significant. The Company believes that a single licensee could provide \$750,000 in pretax income, although it may not be realized for three to four years.

Financial Projections

The following table summarizes the potential profit and loss over the next 10 quarters.

International Barrier Technology Inc.

Table 2. Financial Projections
(U.S. dollars in thousands)

	<u>Qtr 3</u> <u>March 2007</u>	<u>Qtr 4</u> <u>June 2007</u>	<u>Qtr 1</u> <u>Sept 2008</u>	<u>Qtr 2</u> <u>Dec 2008</u>	<u>Qtr 3</u> <u>March 2008</u>	<u>Qtr 4</u> <u>June 2008</u>	<u>Qtr 1</u> <u>Sept 2009</u>	<u>Qtr 2</u> <u>Dec 2009</u>	<u>Qtr 3</u> <u>March 2009</u>	<u>Qtr 4</u> <u>June 2009</u>
Sales										
Multi-Family	250	453	805	687	803	879	792	1,089	1,089	990
MuleHide	412	412	495	495	660	660	825	825	825	825
All Other*	0	58	168	186	498	806	1,010	1,118	1,225	1,444
Substrate	559	843	1,322	1,252	1,744	2,039	2,275	2,603	2,679	2,747
Total Additional Revenue**	179	239	401	376	516	602	671	778	798	811
Total Sales	1,400	2,005	3,191	2,996	4,221	4,986	5,573	6,413	6,616	6,817
Cost of Goods	1,203	1,628	2,499	2,377	3,322	3,820	4,281	4,864	5,008	5,134
Gross Profit	197	377	692	619	899	1,166	1,292	1,549	1,608	1,683
Admin Expenses	324	356	333	319	323	347	394	446	447	449
Pre Tax Income	-127	21	359	300	576	819	898	1,103	1,161	1,234
Tax	0	0	108	90	173	246	269	331	348	370
Net Income	0	0	251	210	403	573	629	772	813	864
Per Share	0	0	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.02
*All Other										
Wall Assemblies	0	0	28	40	56	89	268	313	358	402
SIP	0	25	50	50	250	500	550	600	650	800
Wall Panels	0	0	6	12	25	50	25	38	50	75
Mule Hide A	0	33	84	84	167	167	167	167	167	167
Total All Other	0	58	168	186	498	806	1,010	1,118	1,225	1,444

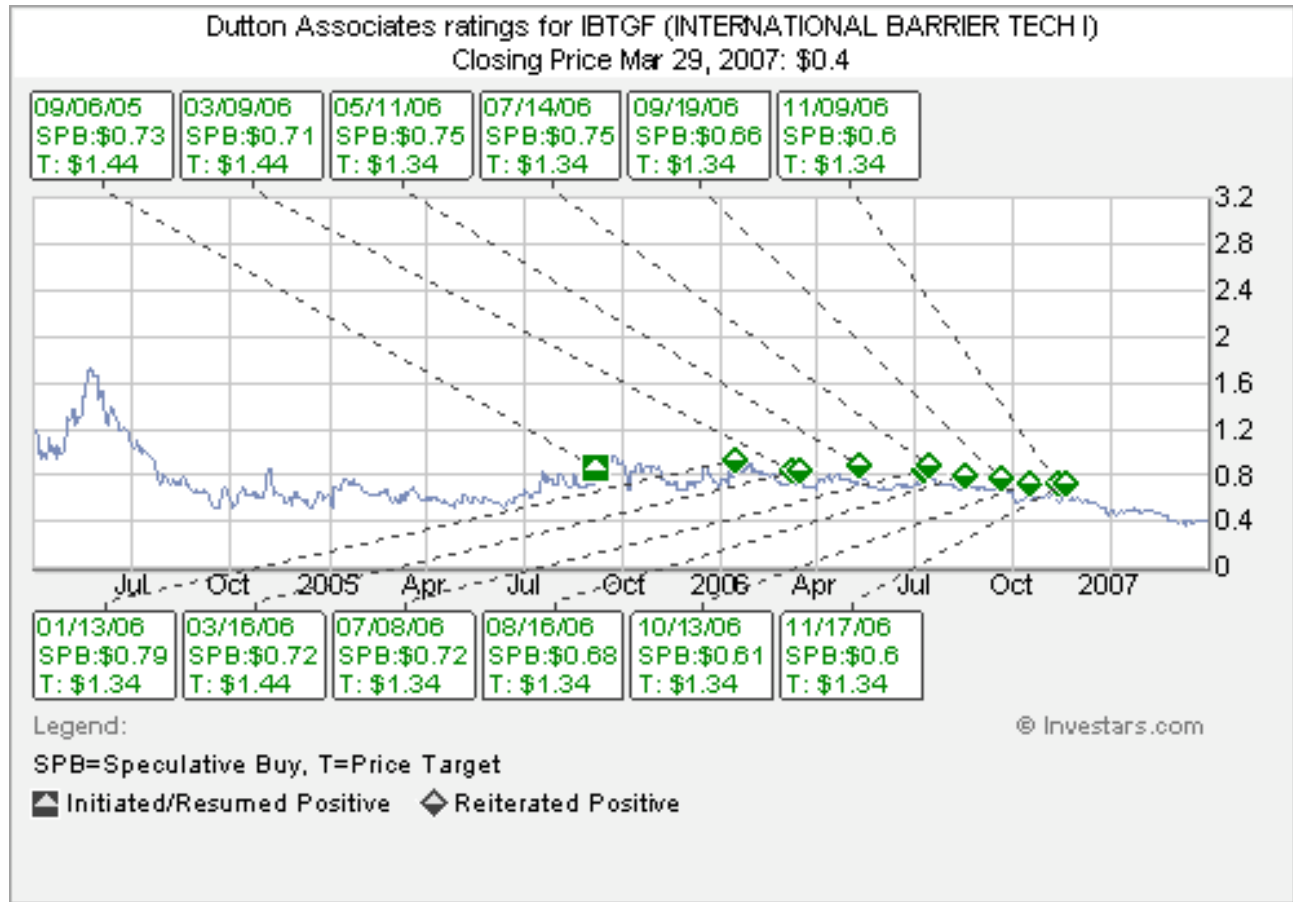
**Total Additional Revenue - this includes all other miscellaneous income (freight, etc.)

Source: Company data and Dutton Associates estimates

Conclusion

We believe that within 12 months, Barrier can support a price of \$0.84 per share, which is over 100% above the current market. Following a period of softness in the multi-family construction market over the next two quarters, the Company is expected to rebound in fiscal 2008, ending June 30, 2008. Continued growth in the Company's sales to MuleHide commercial modular is anticipated in fiscal 2008. Also, new products will be introduced in fiscal 2008.

We consider that an annualized net income per share in the fiscal 2008 fourth quarter is estimated to be \$0.09 per share (\$818,780 times four equals \$3.275 million pretax, times 70% equals net income after tax of \$2.521 million, divided by 29.4 million shares outstanding equals net income per share of \$0.09). The price-earnings ratios on the target price of \$0.84 per share is 9.3 times, which in our opinion is undervalued, considering the prospects of significant growth in net income in fiscal 2009 ending June 30, 2009. We rate the stock of Barrier as a **Strong Speculative Buy**.



Dutton Associates	
Current Ratings Distribution	
Rating	% Total
Not rated	1.47
Strong Buy	11.76
Buy	8.82
Strong Speculative Buy	33.82
Speculative Buy	26.47
Neutral	15.44
Avoid	2.21

Analyst: Gerald F. LaKarnafeaux, CFA

During the past 40 years, Mr. LaKarnafeaux has held senior positions in international and regional investment banking firms as a securities analyst, portfolio manager and director of corporate finance. Mr. LaKarnafeaux is currently providing consulting services to early stage private and public companies in the areas of corporate valuation and capital formation. He has been an active member and officer of regional chapters of The Financial Analyst Society, The Corporate Finance Council and The American Society of Appraisers.

Analyst Certification:

I, Gerald F. LaKarnafeaux, CFA hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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