

**INTERNATIONAL BARRIER TECHNOLOGY INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2008 and 2007

(Stated in US Dollars)

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Directors and Stockholders,  
International Barrier Technology Inc.

We have audited the accompanying consolidated balance sheets of International Barrier Technology Inc. as of June 30, 2008 and the related consolidated statements of operations, cash flows and stockholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Barrier Technology Inc as of June 30, 2008 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company had an accumulated deficit of \$12,208,434 at June 30, 2008 and incurred a net loss of \$808,350 for the year then ended. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ BDO Dunwoody LLP  
Chartered Accountants

Vancouver, Canada  
October 10, 2008

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders,  
International Barrier Technology Inc.

We have audited the accompanying consolidated balance sheets of International Barrier Technology Inc. and subsidiaries as of June 30, 2007 and the related consolidated statements of operations, cash flows and stockholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Barrier Technology Inc. and subsidiaries as of June 30, 2007 and the results of their operations and their cash flows for the year then ended conformity with accounting principles generally accepted in the United States of America.

Vancouver, Canada  
September 7, 2007

/s/ Amisano Hanson  
Chartered Accountants

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**CONSOLIDATED BALANCE SHEETS**  
June 30, 2008 and 2007  
(Stated in US Dollars)

	<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current			
Cash and cash equivalents		\$ 436,426	\$ 557,316
Accounts receivable		360,417	250,931
Inventory – Note 3		293,979	478,504
Prepaid expenses and deposits		<u>58,870</u>	<u>60,175</u>
		1,149,692	1,346,926
Property, plant and equipment – Note 4		4,076,017	3,902,257
Patent, trademark and technology rights– Note 5		<u>512,267</u>	<u>638,683</u>
		<u>\$ 5,737,976</u>	<u>\$ 5,887,866</u>

	<u>LIABILITIES</u>	
Current		
Accounts payable and accrued liabilities – Note 10		\$ 645,656
Deferred income		7,159
Current portion of obligation under capital leases – Note 7		<u>63,994</u>
		716,809
Long-term debt – Note 6		750,000
Obligation under capital leases – Note 7		<u>398,298</u>
		<u>1,865,107</u>
		501,435
		290,211
		<u>462,330</u>
		<u>1,253,976</u>

	<u>STOCKHOLDERS' EQUITY</u>	
Common stock – Note 8		
Authorized:		
100,000,000 common shares without par value		
Issued:		
29,414,925 common shares (2007: 29,414,925 common shares)		15,079,071
Additional capital – stock-based compensation		1,002,232
Deficit		<u>(12,208,434)</u>
		<u>3,872,869</u>
		<u>\$ 5,737,976</u>
		<u>\$ 5,887,866</u>

Commitments – Notes 6, 7 and 8  
Contingency – Note 14

APPROVED BY THE DIRECTORS:

<u>“ David Corcoran ”</u> David Corcoran	Director	<u>“ Victor Yates ”</u> Victor Yates	Director
---	----------	---	----------

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
for the years ended June 30, 2008 and 2007  
(Stated in US Dollars)

	<u>2008</u>	<u>2007</u>
Sales	\$ 4,877,605	\$ 6,130,226
Cost of sales	<u>(4,538,519)</u>	<u>(5,301,206)</u>
Gross profit	<u>339,086</u>	<u>829,020</u>
Expenses		
Accounting and audit fees	45,331	91,582
Consulting fees	19,934	3,428
Filing fees	23,546	22,980
Insurance	125,974	130,873
Interest and bank charges	247	3,026
Interest on long-term obligations	82,109	52,870
Legal fees	64,024	109,359
Office and miscellaneous	69,268	59,861
Sales marketing and investor relations	68,909	171,753
Telephone	12,285	11,857
Transfer agent fees	13,729	9,125
Wages and management fees – Note 10 (includes \$47,329 and \$113,681 of stock-based compensation, Note 8)	<u>674,359</u>	<u>712,182</u>
	<u>1,199,715</u>	<u>1,378,896</u>
Loss before other income	(860,629)	(549,876)
Other income	<u>52,279</u>	<u>58,853</u>
Net loss for the year	<u>\$ (808,350)</u>	<u>\$ (491,023)</u>
Basic and diluted loss per share	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>
Weighted average number of shares outstanding	<u>29,414,925</u>	<u>28,648,474</u>

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the years ended June 30, 2008 and 2007  
(Stated in US Dollars)

	<u>2008</u>	<u>2007</u>
Operating Activities		
Net loss for the year	\$ (808,350)	\$ (491,023)
Items not involving cash:		
Amortization – plant and equipment	260,335	246,847
– patent, trademark and technology rights	126,416	125,000
Stock-based compensation	47,329	113,681
Changes in non-cash working capital balances related to operations:		
Accounts receivable	(109,486)	222,168
Inventory	184,525	(160,077)
Prepaid expenses and deposits	1,305	(25,571)
Deferred income	387	6,772
Accounts payable and accrued liabilities	<u>217,885</u>	<u>(114,543)</u>
	<u>(79,654)</u>	<u>(76,746)</u>
Investing Activities		
Purchase of plant and equipment	<u>(434,095)</u>	<u>(463,853)</u>
Financing Activities		
Increase in long-term debt	459,789	290,211
Decrease in long-term debt	-	(27,300)
Decrease in obligations under capital lease	(66,930)	(73,328)
Common shares issued for cash	<u>-</u>	<u>11,221</u>
	<u>392,859</u>	<u>200,804</u>
Change in cash during the year	(120,890)	(339,795)
Cash and cash equivalents, beginning of the year	<u>557,316</u>	<u>897,111</u>
Cash and cash equivalents, end of the year	<u>\$ 436,426</u>	<u>\$ 557,316</u>
Supplementary cash flow information		
Cash paid for interest	<u>\$ 82,109</u>	<u>\$ 52,870</u>
Non-cash Transaction – Note 12		

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
for the years ended June 30, 2008 and 2007  
(Stated in US Dollars)

	Common Stock		Additional Capital – Stock-based Compensation	Deficit	Total
	Issued Shares	Amount			
Balance, June 30, 2006	29,389,925	15,059,952	849,120	(10,909,061)	5,000,011
Issued for cash pursuant to the exercise of share purchase options - at \$0.45	25,000	11,221	-	-	11,221
Reclassification of stock-based compensation charges upon the exercise of share purchase options	-	7,898	(7,898)	-	-
Stock-based compensation	-	-	113,681	-	113,681
Net loss for the year	-	-	-	(491,023)	(491,023)
Balance, June 30, 2007	29,414,925	\$ 15,079,071	\$ 954,903	\$ (11,400,084)	\$ 4,633,890

.../cont'd

SEE ACCOMPANYING NOTES

Continued

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
for the years ended June 30, 2008 and 2007  
(Stated in US Dollars)

	Common Stock		Additional Capital – Stock-based Compensation	Deficit	Total
	Issued Shares	Amount			
Balance, June 30, 2007	29,414,925	\$ 15,079,071	\$ 954,903	\$ (11,400,084)	\$ 4,633,890
Stock-based compensation	-	-	47,329	-	47,329
Net loss for the year	-	-	-	(808,350)	(808,350)
Balance, June 30, 2008	<u>29,414,925</u>	<u>\$ 15,079,071</u>	<u>\$ 1,002,232</u>	<u>\$ (12,208,434)</u>	<u>\$ 3,872,869</u>

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2008 and 2007  
(Stated in US Dollars)

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 June 30, 2008, the Company had an accumulated deficit of \$12,208,434 (2007: \$11,400,084) since its inception and incurred a net loss of \$808,350 (2007 \$ 491,023) for the year 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 June 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.

During the years ended June 30, 2008 and June 30, 2007, the Company had assets in each of Canada and the United States of America and generated sales primarily in the United States of America.

Note 2      Significant Accounting Policies

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses in the reporting period. The Company regularly evaluates estimates and assumptions related to deferred income tax asset valuations, asset impairment, stock based compensation and loss contingencies. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

The financial statements have, in management's opinion, been properly prepared within the framework of the significant accounting policies summarized below:

a) Principles of Consolidation

These consolidated financial statements include the accounts of International Barrier Technology Inc. and its wholly-owned subsidiaries, Pyrotite Coatings of Canada Inc., a Canadian company and Barrier Technology Corporation, a US company. All inter-company transactions and balances have been eliminated.

b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid, short-term term deposits held at Canadian banks.

c) Inventory

Inventory is valued by management at the lower of average cost and net realizable value. Additionally, as required by SFAS No. 151, "Inventory Costs – an Amendment of ARB No. 43, Chapter 4", items such as abnormal amounts of idle facility expense, freight, handling and wasted material be recognized as current period charges rather than inventory value.

Note 2 Significant Accounting Policies – (cont'd)

d) Plant and Equipment, Trademark and Technology Rights and Amortization

Plant and equipment and trademark and technology rights are recorded at cost. Amortization is provided using the straight line method with the following estimated useful lives:

Manufacturing equipment	straight line over 5 years
Equipment and furniture	20% - declining balance
Computer equipment	30% - declining balance
Railway spur	4% - declining balance
Equipment under capital lease	20% - declining balance
Building under capital lease	straight line over 20 years
Trademark and technology rights	straight line over 8 years

Leasehold Improvements are depreciated on a straight-line basis over the shorter of the lease term (being five years) or economic life.

e) Impairment of Long-Lived Assets

The Company reviews the recoverability of its long-lived assets as required by SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about future operating performance, and may differ from actual cash flows. Long-lived assets evaluated for impairment are grouped with other assets to the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made. The Company has determined that no impairment of long-lived assets exists as of June 30, 2008 or June 30, 2007.

f) Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Note 2      Significant Accounting Policies – (cont'd)

g) Foreign Currency Translation

The functional currency for the Company's operations is the US dollar. Monetary assets and liabilities denominated in Canadian dollars are translated into U.S. dollars at the exchange rate prevailing at the end of the year. Non-monetary assets and liabilities are translated at the exchange rate prevailing at the respective transaction dates while revenues and expenses are translated at the average exchange rate during the year. Exchange gains and losses are recognized in income.

h) Research and Development Costs

Research and development costs are expensed in the year in which they are incurred.

i) Basic and Diluted Loss Per Share

Basic earnings per share are computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. Fully dilutive amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

The weighted average number of common shares outstanding for 2007 has been revised from the original calculation to correct an error in the computation. The impact of the change did not result in a change in the Company's loss per share for the year ended June 30, 2007.

j) Financial Instruments

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, long-term debt and obligation under capital leases. Unless otherwise noted, the fair values of these financial instruments approximate their carrying values.

Note 2      Significant Accounting Policies – (cont'd)

k) Accounts Receivable and Concentrations of Credit Risk

The Company grants credit to its customers in the normal course of business. Trade receivables are typically non-interest bearing and are initially recorded at cost. Sales to the Company's recurring customers are generally made on open account terms. Past due status of customer accounts is determined based on how recently payments have been received in relation to payment terms granted. Credit is generally extended based upon an evaluation of each customer's financial condition, with terms consistent in the industry and no collateral required. Losses from credit sales, if any, are provided for in the financial statements. The Company reviews its accounts receivable for collectibility based on an evaluation of specific customer risks along with historical and probable bad debt experience. Management determined that no allowance was necessary at June 30, 2008 and 2007.

During the year ended June 30, 2008, one customer accounted for 74.4% (2007: two customers accounted for 54.7% and 12.85% respectively) of the Company's sales. The loss of this customer or the curtailment of purchases by such customer could have a material adverse effect on the Company's financial condition and results of operations.

Currency Risk

The Company holds cash of \$414,411 in Canadian dollars exposing it to a foreign currency exchange risk.

l) Revenue Recognition

i) Building Supplies

The Company recognizes revenue in accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin 104, "Revenue Recognition", which requires that: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the sales price is fixed and determinable, and (iv) collectibility is reasonably assured. The Company recognizes revenue when the building supplies have been shipped and the customer has been invoiced.

iii) License Fees

License fees revenue is recognized when the licensee records the sale of products from certain fire retardant technology known as IPOSB technology and collection is reasonably assured. There was no license fee revenue during the years ended June 30, 2008 and 2007.

Note 2      Significant Accounting Policies – (cont'd)

l) Income Taxes

The Company follows the liability method of accounting for income taxes in accordance with SFAS No. 109. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized in the current year for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using tax rates and laws expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in operations in the year of change. Valuation allowances are recorded when it is “more likely-than-not” that a deferred tax asset will not be realized.

m) Stock-based Compensation

The Company accounts for all stock-based payments and awards under the fair value based method.

Stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until the counterparty performance is complete, and any change therein is recognized over the vesting period of the award and in the same manner as if the Company had paid cash instead of paying with or using equity based instruments. The cost of the stock-based payments to non-employees that are fully vested and non-forfeitable as at the grant date is measured and recognized at that date, unless there is a contractual term for services in which case such compensation would be amortized over the contractual term.

The Company accounts for the granting of share purchase options to employees using the fair value method whereby all awards to employees will be recorded at fair value on the date of the grant. The fair value of all share purchase options are expensed over their vesting period with a corresponding increase to additional capital surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in additional capital surplus, is recorded as an increase to share capital

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of the grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

n) Comparative Figures

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

Note 2      Significant Accounting Policies – (cont'd)

o) Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes”. The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements in accordance with Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes”. Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax position. The interpretation is effective for fiscal years beginning after December 15, 2006. Effective July 1, 2007, the Company adopted the provisions of FIN 48. Based on the Company’s assessment of FIN 48, as at July 1, 2007, there was no significant impact on the results of operations or financial position and required no adjustment to the opening balance sheet accounts. The Company’s analysis supports the same conclusion, and there is no accrual for uncertain tax positions as of June 30, 2008. As a result, tabular reconciliation of beginning and ending balances would not be meaningful. If interest and penalties were to be assessed, we would charge interest to interest expense, and penalties to other operating expense. It is not anticipated that unrecognized tax benefits would significantly increase or decrease within 12 months of the reporting date.

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. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the timing of adoption and the impact that adoption might have on its financial position or results of operations.

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. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact that the adoption of SFAS No. 159 might have on its financial position or results of operations.

In December 2007, the FASB issued SFAS 141R “Business Combinations” which is effective for fiscal years beginning after December 15, 2008. SFAS 141R, which will replace FAS 141, is applicable to business combinations consummated after the effective date of December 15, 2008. The Company is currently evaluating the impact that the adoption of SFAS No. 141R might have on its financial position or results of operations.

Note 2 Significant Accounting Policies – (cont'd)

o) Recent Accounting Pronouncements (cont'd)

In December 2007, the FASB also issued SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB 51”. SFAS No. 160 will change the accounting and reporting for minority interests, which will be re-characterized as non-controlling interests and classified as a component of equity. SFAS No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 and interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of SFAS 160 might have on its financial positions or results of operations.

In March 2008, the FASB issued SFAS 161 “Disclosures about Derivative Instruments and Hedging Activities – an amendment of SFAS 133. This Statement requires enhanced disclosures about an entity’s derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently evaluating the impact that the adoption of SFAS 161 might have on its financial position or results of operations.

Note 3 Inventory

	<u>2008</u>	<u>2007</u>
Raw materials	\$ 223,750	\$ 299,273
Finished goods	<u>70,229</u>	<u>179,231</u>
	<u>\$ 293,979</u>	<u>\$ 478,504</u>

Note 4 Property, Plant and Equipment

	<u>2008</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Manufacturing equipment	\$ 3,415,039	\$ 737,986	\$ 2,677,053
Equipment and furniture	33,194	26,028	7,166
Computer equipment	<u>28,938</u>	<u>23,870</u>	<u>5,068</u>
	<u>3,477,171</u>	<u>787,884</u>	<u>2,689,287</u>

International Barrier Technology Inc.  
Notes to the Consolidated Financial Statements  
June 30, 2008 and 2007  
(Stated in US Dollars) – Page 9

Note 4 Property, Plant and Equipment (cont'd)

	2008		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Assets under capital lease			
Equipment	69,696	17,347	52,349
Land	54,498	-	54,498
Building	1,871,287	649,850	1,221,437
Railroad spur	<u>94,108</u>	<u>35,662</u>	<u>58,446</u>
	<u>2,089,589</u>	<u>702,859</u>	<u>1,386,730</u>
	<u>\$ 5,566,760</u>	<u>\$ 1,490,743</u>	<u>\$ 4,076,017</u>
	2007		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Manufacturing equipment	\$ 2,994,894	\$ 571,754	\$ 2,423,140
Equipment and furniture	33,194	23,395	9,799
Computer equipment	<u>28,938</u>	<u>22,210</u>	<u>6,728</u>
	<u>3,057,026</u>	<u>617,359</u>	<u>2,439,667</u>
Assets under capital lease			
Equipment	69,696	10,377	59,319
Land	54,498	-	54,498
Building	1,857,337	570,774	1,286,563
Railroad spur	<u>94,108</u>	<u>31,898</u>	<u>62,210</u>
	<u>2,075,639</u>	<u>613,049</u>	<u>1,462,590</u>
	<u>\$ 5,132,665</u>	<u>\$ 1,230,408</u>	<u>\$ 3,902,257</u>

Amortization of assets under capital leases included in amortization expense for the year ended June 30, 2008 is \$89,810 (2007: \$89,506).

International Barrier Technology Inc.  
Notes to the Consolidated Financial Statements  
June 30, 2008 and 2007  
(Stated in US Dollars) – Page 10

Note 5 Patent, Trademark and Technology Rights

	<u>2008</u>	<u>2007</u>
Trademark and technology rights – at cost	\$ 1,000,000	\$ 1,000,000
Patent – at cost	<u>24,104</u>	<u>24,104</u>
	1,024,104	1,024,104
Less: accumulated amortization	<u>(511,837)</u>	<u>(385,421)</u>
	<u>\$ 512,267</u>	<u>\$ 638,683</u>

Note 6 Long-term Debt

	<u>2008</u>	<u>2007</u>
Revolving bank loan facility in the amount of \$1,000,000 bearing interest at 8.5% and secured by a charge over accounts receivable, inventory and equipment. The balance is due on July 1, 2009	\$ <u>750,000</u>	\$ <u>290,211</u>

Subsequent to June 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.

Note 7 Obligation Under Capital Leases

Future minimum lease payments on the obligation under capital leases together with the obligation due under capital leases are as follows:

2008	\$ 89,685
2009	76,072
2010	73,621
2011	73,621
2012	73,621
Thereafter	<u>184,054</u>
	570,674
Less: amount representing interest	<u>(108,382)</u>
	462,292
Less: current portion	<u>(63,994)</u>
Long-term portion	<u>\$ 398,298</u>

The capital leases bear interest at various rates from 4.75% to 6%. Interest on capital leases included in interest on long-term debt for the year ended June 30, 2008 is \$29,606 (2007: \$42,900).

Note 8 Common Stock

a) Escrow:

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

b) Commitments:

Share Purchase Warrants

A summary of the Company's share purchase warrants outstanding is summarized below:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding, June 30, 2007	3,143,000	\$0.75
Exercised	<u>(1,890,000)</u>	<u>\$0.63</u>
Balance, June 30, 2007	1,253,000	\$0.92
Cancelled	<u>(1,253,000)</u>	<u>\$0.92</u>
Balance, June 30, 2008	<u>                  -</u>	<u>\$ -</u>

At June 30, 2008, there were no outstanding purchase warrants.

Stock-based Compensation Plan

In November 2005, the Company continued its rolling stock option plan ("the 2005 Rolling Plan"). The 2005 Rolling Plan provides for the granting of stock options to selected directors, officers, employees or consultants in an aggregate amount of up to 10% of the issued and outstanding common shares of the Company. Under the 2005 Rolling Plan, the granting of stock options, exercise prices and terms are determined by the Company's Board of Directors. Options granted to non-executive employees and consultants typically vest in stages over various periods of time while options granted to Directors and executive employees vest immediately upon their grant. The exercise price shall not be less than the Discounted Market Price, which is defined as the last closing price of the common shares before the date of the grant less an applicable discount, as allowed by the regulatory authorities. Options granted under the 2005 Rolling Plan may not exceed a term of 5 years unless the Company achieves classification as a "Tier 1" issuer in accordance with the policies of the TSX, in which case, the options may be granted for a maximum term of 10 years.

Note 8 Common Stock (cont'd)

b) Commitments – (cont'd)

Stock-based Compensation Plan (cont'd)

A summary of the status of the Company's share purchase option plan as of June 30, 2008 and 2007 and changes during the years ending on those dates is presented below:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u>
Outstanding, June 30, 2006	2,220,900	\$0.57	\$ 288,717
Granted	290,000	\$0.65	
Exercised	(25,000)	\$0.51	
Expired	<u>(32,500)</u>	<u>\$0.44</u>	
Outstanding, June 30, 2007	2,453,400	\$0.57	\$ -
Granted	740,000	\$0.45	
Exercised	-	-	
Expired	<u>(1,085,850)</u>	<u>\$0.51</u>	
Outstanding, June 30, 2008	<u>2,107,550</u>	<u>\$0.56</u>	<u>\$ -</u>
Exercisable, June 30, 2008	<u>1,870,050</u>		

The following summarizes information about share purchase options outstanding as at June 30, 2008:

Number	Exercise Price	Expiry Date	Remaining Contractual Life
40,000	\$0.38	March 6, 2009	0.68 years
1,077,550	\$0.65	August 24, 2009	1.15 years
740,000	\$0.45	January 10, 2010	1.53 years
<u>250,000</u>	\$0.55	August 9, 2010	2.11 years
<u>2,107,550</u>			

Note 8 Common Stock – (cont'd)

b) Commitments – (cont'd)

Stock-based Compensation Plan – (cont'd)

Stock-based compensation charges have been determined under the fair value method using the Black-Scholes option pricing model with the following assumptions:

	<u>2008</u>	<u>2007</u>
Expected dividend yield	0.0%	0.0%
Expected volatility	146%	60%
Risk-free interest rate	2.71%	5.25%
Expected term in years	1.75 years	2 years

Note 9 Research and Development Costs

Research and development expense consists of the following for the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Testing services	<u>\$ 144,181</u>	<u>\$ 219,319</u>

Note 10 Related Party Transactions

The Company was charged the following amounts by directors or private companies with common directors during the years ended June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Wages and management fees	<u>\$ 180,504</u>	<u>\$ 177,419</u>

Included in accounts payable and accrued liabilities is \$1,510 (2007: \$3,727) owing to directors of the Company.

Note 11 Income Taxes

The tax effects of the temporary differences that give rise to the Company's estimated deferred tax assets and liabilities are as follows:

	<u>2008</u>	<u>2007</u>
Net operating loss carryforwards	\$ 592,000	\$ 529,000
Property, plant and equipment	1,057,000	1,290,000
Valuation allowance for deferred tax assets	<u>(1,649,000)</u>	<u>(1,819,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

The provision for income taxes differ from the amount established using the Canadian statutory income tax rate as follows:

	<u>June 30,</u> <u>2008</u>	<u>June 30</u> <u>2007</u>
Income benefit at statutory rate	\$ (275,000)	\$ (190,000)
Stock based compensation	17,000	40,000
Effect of reduction in tax rates	390,000	-
Decrease in valuation allowance	<u>(132,000)</u>	<u>150,000</u>
Deferred income tax recovery	<u>\$ -</u>	<u>\$ -</u>

The Company evaluates its valuation allowance requirements based on projected future operations. When circumstances change and this causes a change in management's judgment about the recoverability of future tax assets, the impact of the change on the valuation allowance is reflected in current income. As management of the Company does not currently believe that it is more likely than not that the Company will receive the benefit of this asset, a valuation allowance equal to the future tax asset has been established at both June 30, 2008 and June 30, 2007.

As at June 30, 2008, the Company had net operating loss carry-forwards available to reduce taxable income in future years as follows:

Jurisdiction	Amount	Expiration dates
Canada	\$933,085	2009-2028
United States	\$1,076,758	2009-2028

Note 11 Income Taxes – (cont'd)

*Uncertain Tax Positions*

On July 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the recognition and measurement of tax positions taken or expected to be taken in income tax returns. FIN 48 also provides guidance on de-recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, and accounting for interest and penalties associated with tax positions.

The Company files income tax returns in the U.S. federal jurisdiction, various state and foreign jurisdictions. The Company's tax returns are subject to tax examinations by U.S. federal and state tax authorities, or examinations by foreign tax authorities until respective statute of limitation. It is subject to tax examinations by tax authorities for all taxation years commencing on or after 2000.

Based on the management's assessment of FIN 48, it was concluded that the adoption of FIN 48, as of July 1, 2007, had no significant impact on the Company's results of operations or financial position, and required no adjustment to the opening balance sheet accounts. The year-end analysis supports the same conclusion, and the Company does not have an accrual for uncertain tax positions as of June 30, 2008. As a result, tabular reconciliation of beginning and ending balances would not be meaningful. If interest and penalties were to be assessed, we would charge interest to interest expense, and penalties to other operating expense. It is not anticipated that unrecognized tax benefits would significantly increase or decrease within 12 months of the reporting date.

The Company is in arrears on filing its statutory income tax returns and is therefore has estimated the expected amount of loss carry forwards available once the outstanding returns are filed. The Company expects to have significant net operating loss carry forwards for income tax purposes available to offset future taxable income.

Note 12 Non-cash Transaction

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows. The following transaction was excluded from the statement of cash flows:

During the year ended June 30, 2007, the Company acquired equipment in the amount of \$44,620 by undertaking a capital lease obligation.

Note 13 Segmented information and sales concentration

The Company operates in one industry segment being the manufacturing and marketing of fire resistant building materials. During the year ended June 30, 2008, the Company earned sales revenue of \$4,877,605 (2007: \$6,130,226), 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:

	June 30, <u>2008</u>	June 30 <u>2007</u>
Canada	\$ 520,829	\$ 614,579
United States	5,217,147	5,273,287
Total	<u>\$ 5,737,976</u>	<u>\$ 5,887,866</u>

During the year ended June 30, 2008, one customer accounted for 74.4% of sales revenue. During the year ended June 30, 2007, two customers accounted for 67.55% (each representing 54.7% and 12.85% respectively) 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 14 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.