

INTERNATIONAL BARRIER TECHNOLOGY INC.
QUARTERLY REPORT
for the period ended June 30, 2006

Management Discussion & Analysis

Date of Report – September 29, 2006

Description of Business

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

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-QSB and annual audited financial statements on Form 10-KSB. Barrier continues to file the above financial statements with SEDAR in Canada.

Sales reported for the fiscal year ending June 30, 2006 were \$6,604,434 up 51% from the previous fiscal year ending June 30, 2005. This sales volume, as was the case for sales reported in Fiscal year 2005, is an all time record for the company. Gross profit was up to \$1,447,628, a 60% year to year annual increase. The gross margin increased from 20.7% to 21.9%.

Sales, as measured by surface volume of product shipped increased to 7,894,000 square feet: an increase of 53% from the 5,163,800 square feet shipped in fiscal year 2005. This year to year increase follows a year where sales volume had improved from 3,370,500, resulting in a two year increase of 134%.

Sales to the commercial modular business segment accounted for 42% of the total volume shipped over the fiscal year. In the previous year, sales to commercial modular represented 39% of sales. Sales to commercial began early in calendar year 2004 when Barrier, in association with MuleHide Products Inc., developed, tested and listed two fire rated commercial roof deck assemblies with Underwriters Laboratories, Inc. Barrier anticipates that this market will continue to provide an opportunity for sustained growth and will also provide the basis for the development of other markets, such as fire rated *residential* and *non-modular* commercial roof deck applications, during fiscal year 2007.

In July, 2005 Barrier hired an experienced sales manager to help administer a national sales program for multifamily residential sales out of the Watkins office and also to help develop the mid-western market for Blazeguard sales. Multifamily residential sales continue to be the market segment with the largest sales volume for Blazeguard. Mr. James Kleinke has been working diligently to add sales in this market segment by introducing Blazeguard to mid-western building products distributors and builders. During this period, Mr. Kleinke has successfully engaged numerous building products distributors in the area, including: Lake States Lumber, Inc.; Stock Building Supply; and United Building Centers, UBC, to become local stocking distributors of Blazeguard. While there were virtually nil sales to the mid-western region in fiscal year 2005, there are currently fifteen builders that have elected to use Blazeguard as their product of choice on townhome building developments.

Sales to the mid-west region through June 30, 2006 were 274,500 sq.ft. Barrier expects to grow this regional market to increasingly higher volumes as more builders become aware of the advantages of utilizing Blazeguard versus alternative products such as the chemically impregnated fire-retardant treated plywood (FRT). Barrier anticipates gaining a significant market share in the mid-western region because of the proximity of the area to the Blazeguard treatment facility and the inherent transportation and service advantages of being close by.

Cost of goods sold increased to \$5,156,806 from \$3,470,125. The increase in cost is directly related to the higher volume of production and shipments. Average direct costs per sq.ft. of production, however, fell from \$0.67 to \$0.65.

Barrier began a capital improvement project in the spring of 2005 whose purpose was to develop an additional manufacturing line for Blazeguard at the Watkins facility. The new, high speed line began limited production in March, 2006. The production process design in this new line is innovative and a patent has been applied for. Patent pending status has been obtained and a US patent is expected sometime in 2007. The new process will become a key component of Barrier's global licensing strategy.

As the "new line" continues to provide a greater percentage of volume shipped, relative to the old line, the average cost of goods sold is expected to decline. The new line has been designed to keep material waste to a bare minimum. Labor rates per square foot will also decline since for a similar amount of labor hours, twice the volume of product is anticipated to be produced on the new line relative to the "existing" one. Gains in efficiency on this new line will grow as labor becomes increasingly more proficient in maintaining and running this new production process and further refinements are made to the machinery as well.

Operating expenses which include amortization and R&D, increased to \$340,681 from \$294,878 the previous year. Research and Development expenses of \$93,732 were directed toward the continued refinements in the commercial modular assemblies; strength and allowable load testing for Blazeguard; and, collecting hazardous emission data from FRT exposed to elevated temperatures. Amortization was up year to year (to 121,949 from \$90,212) based on the capital equipment and building expansion project at the Watkins, Minnesota facility. Amortization of the worldwide Pyrotite technology and trademarks, which was completed in 2004 at a cost of \$1,000,000 US, continues to be amortized.

Administrative expenses declined to \$1,396,985 from the \$1,616,088 expended in the previous fiscal year. The decline is related primarily to a reduction in the amount of stock based compensation issued to key managers. The recording of a cost associated with the issuance of stock options began last year with the adoption of the provisions of the Sarbanes-Oxley Act. This figure is an estimate of the value of stock options awarded to management and key personnel as a portion of their total compensation package (see section: Critical Accounting Estimates below). Since options are typically granted with a redeemable stated value less than the current market value, a formula is used to charge the company the difference. While this reporting is a new requirement, and a true reflection of value the company is granting to key personnel, it is a “non-cash” item that does not directly impact operational performance.

Administrative expenses, net of stock based compensation, for the fiscal year ending June 30, 2006 was \$1,179,578, an increase from \$897,168 the previous year. While the totals are higher, administrative costs per sq. ft. fell from \$0.17 to \$0.15 per sq.ft. 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 per square foot of product produced will have a significant impact on bottom line performance in future reporting periods.

Accounting and audit fees have increased significantly to \$76,984 from \$34,026 in the prior year. This is also partially due to the additional accounting and auditing requirements resulting from the enactment of Sarbanes-Oxley. Insurance costs have increased due to the purchase of a Directors and Officers insurance policy. In addition, the increase in sales volumes led to additional coverage requirements. Twelve month insurance costs have risen to \$94,452 from \$42,628 the previous year.

Sales marketing and investor relation expenses are higher as a result of increased activity and the fact that Barrier has added a sales manager. Wages and management fees have grown to \$521,323 reflecting the addition of professional staff including the new Sales Manager position (Mr. James Kleinke), as well as a new Financial Services Manager (Mr. Todd Lorsung).

Included within the sales and marketing expenses for fiscal year ending June 30, 2006, was participation in the International Builders Show in Orlando, FL and the Modular Builders Institute (MBI) in Jacksonville, FL. The website was redesigned to provide convenient access to product and licensing information and to improve navigation throughout the site.

Barrier will continue to expand upon its shareholder and customer communication programs to ensure the public is informed about business development and emerging opportunities. In addition, Barrier was featured nationally on CNBC’s “Business and Beyond.” Business and Beyond is an ongoing business information show produced by Platinum Television and hosted by the famous Fox TV broadcaster, James Brown. The show aired 100 times on regional cable in addition to the guaranteed national broadcast.

Other items include expenses and income not directly relate to business operations. Other items include such things as foreign exchange gain (loss), interest income and royalty fees.

Other items reported herein include interest income of \$24,451. Barrier received \$55,399 in royalty fees from Pyrotite Corporation for the twelve month period. Pyrotite Corporation reserved the rights to “integrally” treated OSB when Barrier purchased the worldwide patents and Pyrotite technology in 2004.

Pyrotite Corporation entered into a sales agreement with an OSB producer during this fiscal year. Pyrotite has disclosed to Barrier that future royalties, based on sales of Pyrotite “substances”, can be expected while the OSB producer continues their quest to develop and market an integrally treated, fire-resistant OSB product.

Net income (loss)

A net loss of \$211,724 is reported here, whereas in the same period in 2005, a loss of \$981,940 was reported. Net income for fiscal year 2006, minus the impact of stock based compensation was a \$5,683 gain versus a loss of \$263,020 in Fiscal 2005.

Summary of Quarterly Results. The following is a summary of the Company’s financial results for the eight most recently completed quarters:

	June 30 2006	Mar 31 2006	Dec 31 2005	Sept 30 2005	June 30 2005	Mar 31 2005	Dec 31 2004	Sept 30 2004
Volume shipped (MSF)	2267.0	2155.4	1820.2	1,651.4	1,305.9	1,361.1	1,290.6	1,206.3
Total Revenues (000\$)	1.826	1.825	1.611	1.342	1.069	1.196	1.041	1.070
Operating Income	(150.3)	1.7	(187.5)	46.1	(332.6)	(21.1)	(210.3)	(473.0)
Net income (loss)	(144.5)	60.9	(183.9)	55.8	(213.0)	(11.3)	(113.1)	(644.6)
Per Share	(0.00)	(0.00)	(0.01)	(0.00)	(0.01)	(0.00)	(0.00)	(0.03)
Stock-Based Compensation	40.8	0.0	166.5	10.0	34.7	0.00	7.8	676.4
Net income less SBC*	(103.7)	60.9	(17.4)	65.8	(178.3)	(11.3)	(105.3)	31.8

*SBC (Stock-Based Compensation)

Sales volumes continue to increase in a significant way. Sales volume shipped in the most recent quarter was the highest in Barriers history and 5% higher than the record set in the third quarter of this fiscal year. Volume of product shipped in the quarter ended June 30, 2006 was 961,200 sq.ft. greater than in the quarter ending June 30, 2005: a year to year increase of 74%. Since Barrier’s financial performance is ultimately driven by production volume and efficiency, this rate of sales volume growth, if maintained, is very significant and will ultimately result in impressive future profits.

Selected Annual Information

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total Revenue	\$6,604.4	\$4,376.5	\$3,035.3
Net income (loss)	(211.7)	(981.9)	(308.8)
Per share	(0.01)	(0.04)	(0.02)
Per share, fully diluted	(0.01)	(0.04)	(0.02)
Total assets	6,172.2	4,792.4	2,668.5
Total long-term financial liabilities	630.0	637.6	703.7
Cash dividends declared per share	Nil	Nil	Nil

New product and market development Barrier is investing time and financial resources in an effort to accelerate long-term growth. While these expenditures take away from near term profits, the long term result will be beneficial to attaining our goals. Initiatives continue to provide opportunities for sales expansion and growth. Fire testing in support of new product development was completed at Intertek Laboratories (formerly Omega Point Laboratories) in Elmendorf, TX. Barrier successfully passed Class A flame spread tests (ASTM E-84) performed on sample boards produced on the new line. These tests demonstrated that the Blazeguard product being produced on the new line performs at least as well as that produced on the old line. Modifications to the Quality Control Manual have been completed and authorized so that when the new line is capable of having production runs, the testing and follow-up QC requirements are in place. This will allow Barrier to label and market the Blazeguard product produced on the new line in accordance with building code requirements.

Barrier also performed an initial R&D fire test on a 2-hr fire rated roof truss assembly designed to be marketed to the same builders utilizing Blazeguard in multifamily roof decks. While the test results did not completely satisfy the requirements for the introduction of such an assembly, the initial test provided the impetus to redesign and do a follow-up test later in this fiscal year. Preliminary market research has indicated that this application may have a large demand all over the US.

Progress continues to be made in engineering a modified Class A commercial modular roof deck assembly in cooperation with MuleHide Products, Inc. The modified Class A system is being developed to satisfy requirements for portable classrooms in California. California uses more portable classrooms than any other state in the US. Since California's specifications are among the most stringent in the US, satisfying California requirements will enable a modular classroom manufacturer to sell the design in nearly every state desiring portable classroom buildings. Additionally, the improvements in the Class A system will provide the basis for other Class A roof assembly applications such as wood deck commercial and residential areas prone to wildfires.

Barrier has continued its work on developing a new market application for Blazeguard manufactured with a wood veneer face. These overlaid panels will be used in interior wall applications where a Class A flame spread is required: institutional and commercial office buildings. Barrier is working on this project in association with a major US producer of plywood and particleboard. Preliminary veneer trials have been encouraging. Glue compatibility with existing veneer laminating companies, for the purposes of third party manufacturing during business startup, is the current focus of R&D activity. Barrier and their partner in this endeavor remain keenly optimistic about the opportunities this market has for future sales.

Structural Insulative Panels (SIP's) was a significant business for Blazeguard from 1996 – 1999. A non-uniform surface appearance of the coating applied by the existing production line, however, created insurmountable issues in marketing the product as an exposed interior wall surface. The new line will allow Barrier to more successfully produce products to an acceptable interior panel standard. Barrier anticipates a renewed interest in Blazeguard into the SIP's market by mid year 2006.

Significant progress continues to be made in marketing Blazeguard enhanced Class C roof deck assemblies to modular building manufacturers all over the US. These portable and modular buildings are being used as temporary shelters and construction trailers in Louisiana and other areas impacted by hurricane Katrina. Barrier, and its partner in this development endeavor, MuleHide Products, Inc., believes that the growth of this business will continue to be strong throughout 2006 and beyond.

Roof decking for multi-family residential buildings is Barrier's largest and most stable **existing market application**, and to date, represents the majority of sales. Florida continues to be the most important U.S. geography for multifamily roof deck markets for Blazeguard and sales there continue to grow as Blazeguard gains market share. Barrier is now leveraging the success in Florida by making presentations to the same companies utilizing Blazeguard in Florida to their regional offices in southern California, Minnesota, and the Dakotas. Barrier is currently seeking to add sales representation for this application in southern California, Arizona, and Texas. Barrier management expects sales to multi-family residential construction to grow significantly as builders in these targeted areas become aware of the positive attributes of Blazeguard and begin to choose it as their preferred fire-rated sheathing.

Global licensing opportunities. With the purchase of the world technology rights, including U.S. patents, foreign patent filings, trademarks, know-how and trade secrets, Barrier is in a position to develop partners all over the globe in licensing arrangements. Interested parties in China, Saudi Arabia, Mexico, Ireland, Great Britain, Australia, and New Zealand have communicated interest to Barrier. Barrier, in turn, is responding with information about the attributes of Blazeguard, and the Pyrotite technology in an effort to assess their appropriateness in the construction of building communities (residential and commercial) in these countries.

Barrier is also exploring various configurations of the process technology that will enable individual manufacturing customers to place small treatment lines in their own facilities. These small scale processing lines will be designed to satisfy the individual's independent need for product treatment. The 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 prior to the end of the current fiscal year.

Financial position & financings. During the twelve-month period, Barrier issued a total of 1,744,600 common shares for proceeds totaling \$1,064,215 as follows:

- 50,000, 52,500, 55,100, 110,000 common shares at \$0.09, \$0.44, \$0.66, \$0.69 per share respectively pursuant to the exercise of share purchase options
- 217,000, 200,000, 165,000, 320,000, 575,000 common shares at \$0.60, \$0.61, \$0.62, \$0.63, \$0.64 per share respectively pursuant to the exercise of share purchase warrants.

Barrier ended the period with a working capital surplus of \$1,109,259.

Related Party Transactions

During the twelve months ended June 30, 2006 the Company incurred wages and management fees of \$179,535 with directors of the Company and companies with common directors.

Capitalization

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

Issued as of June 30, 2006: 29,389,925 common shares at \$15,059,952

Issued as of September 29, 2006: 29,414,925 common shares at \$15,071,152

Options and warrants outstanding:

The following summarizes information about the stock options outstanding at June 30, 2006 reflected in US dollar currency:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
57,500	\$0.44	May 2, 2007
150,000	\$0.66	July 19, 2007
400,000	\$0.80	October 6, 2007
20,000	\$0.50	February 23, 2008
378,500	\$0.09	March 5, 2008
120,000	\$0.69	March 6, 2008
<u>1,094,900</u>	\$0.65	August 24, 2009
<u>2,220,900</u>		

At June 30, 2006, the following share purchase warrants were outstanding entitling the holder to purchase one common share for each warrant held as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,253,000	\$0.92	August 20, 2008
<u>1,890,000</u>	\$0.66	March 22, 2007
<u>3,143,000</u>		

Critical Accounting Estimates

Stock-based Compensation Charge and Expense

As described in Note 2 to the audited annual financial statements dated June 30, 2006, the Company records stock-based compensation expense in respect to the fair market value on newly issued stock options. This fair market value of the stock options is estimated at the date the stock options are granted using the Black-Scholes option-pricing model. 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 quarterly period reporting purposes. Barrier's management, including the Chief Executive Officer and the Chief Financial Officer, identified no changes in Barrier's internal control procedures over financial reporting during the fiscal year ended June 30, 2006, that would materially affect the accuracy of this financial report.

Other Matters and Subsequent Events

As at June 30, 2006, the Company does not have any off-balance sheet arrangements to report.

Legal proceedings: In late December 2005, the Company was notified of a pending lawsuit in the state of New Jersey whereupon a townhome association which utilized Blazeguard in a roof replacement project in 1996 is claiming damages resulting from Company product failure. The Company is insured against such damages and has documented that incorrect product installation by the customer and the customer's builder was the cause of the subsequent water damage. The Company anticipates no material impact.

The Directors and the management of the Company know of no other material, active or pending, legal proceedings against them; nor is the Company involved as a plaintiff in any other material proceeding or pending litigation. The Directors and the management of the Company know of no active or pending proceedings against anyone that might materially adversely affect an interest of the Company.

Subsequent to June 30, 2006, 25,000 stock options were exercised at \$0.45 per share amounting to total proceeds of \$11,200.

The Company granted 250,000 share purchase options at \$0.55 per share that vest as follows: 25% on the date of the grant and 25% every four months thereafter.

INTERNATIONAL BARRIER TECHNOLOGY INC.

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006 and 2005

(Stated in US Dollars)

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, 2006 and 2005 and the related consolidated statements of operations, cash flows and stockholders' equity for the years ended June 30, 2006 and 2005. 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 audits.

We conducted our audits 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 audits provide 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, 2006 and 2005 and the results of their operations and their cash flows for the years ended June 30, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

Vancouver, Canada
September 1, 2006

“AMISANO HANSON”
Chartered Accountants

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED BALANCE SHEETS
June 30, 2006 and 2005
(Stated in US Dollars)

	<u>ASSETS</u>	<u>2006</u>	<u>2005</u>
Current			
Cash and cash equivalents		\$ 897,111	\$ 1,275,944
Accounts receivable		473,100	252,024
Inventory – Note 3		318,427	303,356
Prepaid expenses and deposits		<u>34,604</u>	<u>16,910</u>
		1,723,242	1,848,234
Property, plant and equipment – Note 4		3,685,251	2,079,583
Patent, trademark and technology rights– Note 5		<u>763,683</u>	<u>864,579</u>
		<u>\$ 6,172,176</u>	<u>\$ 4,792,396</u>
 LIABILITIES			
Current			
Accounts payable and accrued liabilities – Note 10		\$ 542,314	\$ 281,231
Current portion of long-term debt – Note 6		9,100	14,688
Current portion of obligation under capital leases – Note 7		<u>62,569</u>	<u>47,432</u>
		613,983	343,351
Long-term debt – Note 6		18,200	28,534
Obligation under capital leases – Note 7		<u>539,982</u>	<u>556,095</u>
		<u>1,172,165</u>	<u>927,980</u>
 STOCKHOLDERS' EQUITY			
Common stock – Notes 8 and 14			
Authorized:			
100,000,000 common shares without par value			
Issued:			
29,389,925 common shares (2005: 27,645,325 common shares)		15,059,952	13,898,740
Additional capital – stock-based compensation		849,120	728,710
Accumulated other comprehensive income (loss)		22,650	(43,047)
Deficit		<u>(10,931,711)</u>	<u>(10,719,987)</u>
		<u>5,000,011</u>	<u>3,864,416</u>
		<u>\$ 6,172,176</u>	<u>\$ 4,792,396</u>
Commitments – Notes 6, 7, 8 and 14			
Contingency – Note 13			
Subsequent Events – Note 14			

APPROVED BY THE DIRECTORS:

“David Corcoran” Director “Victor Yates” Director

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended June 30, 2006 and 2005
(Stated in US Dollars)

	<u>2006</u>	<u>2005</u>
Sales	\$ 6,604,434	\$ 4,376,490
Cost of sales	<u>(5,156,806)</u>	<u>(3,470,125)</u>
Gross profit	<u>1,447,628</u>	<u>906,365</u>
Amortization – plant and equipment	(121,949)	(90,212)
– trademark and technology rights	(125,000)	(125,000)
Research and development costs – Note 9	<u>(93,732)</u>	<u>(79,666)</u>
	<u>(340,681)</u>	<u>(294,878)</u>
	<u>1,106,947</u>	<u>611,487</u>
General and administrative expenses		
Accounting and audit fees	76,984	34,026
Consulting fees	10,600	16,224
Filing fees	21,784	29,634
Insurance	94,452	42,628
Interest and bank charges	500	2,882
Interest on long-term debt – Note 7	30,441	31,869
Legal fees	58,372	52,084
Office and miscellaneous	72,493	55,907
Sales marketing and investor relations	268,770	248,204
Stock-based compensation – Note 8	217,407	718,920
Telephone	13,381	7,783
Transfer agent fees	10,478	15,073
Wages and management fees – Note 10	<u>521,323</u>	<u>360,854</u>
	<u>1,396,985</u>	<u>1,616,088</u>
Loss before other income	(290,038)	(1,004,601)
Other income	<u>78,314</u>	<u>22,661</u>
Net loss for the year	(211,724)	(981,940)
Foreign currency translation adjustment	<u>65,697</u>	<u>40,791</u>
Comprehensive loss for the year	<u>\$ (146,027)</u>	<u>\$ (941,149)</u>
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>
Weighted average number of shares outstanding	<u>28,829,423</u>	<u>25,545,800</u>

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2006 and 2005
(Stated in US Dollars)

	<u>2006</u>	<u>2005</u>
Operating Activities		
Net loss for the year	\$ (211,724)	\$ (981,940)
Items not involving cash:		
Amortization – plant and equipment	121,949	90,212
– trademark and technology rights	125,000	125,000
Stock-based compensation	217,407	718,920
Changes in non-cash working capital balances related to operations:		
Accounts receivable	(221,076)	189,318
Inventory	(15,071)	(210,521)
Prepaid expenses and deposits	(17,694)	(8,104)
Accounts payable and accrued liabilities	251,983	(74,974)
Due to related parties	<u>-</u>	<u>-</u>
	<u>250,774</u>	<u>(152,089)</u>
Investing Activities		
Purchase of plant and equipment	(1,682,997)	(1,519,959)
Purchase of patent	<u>(24,104)</u>	<u>-</u>
	<u>(1,707,101)</u>	<u>(1,519,959)</u>
Financing Activities		
Decrease in long-term debt	(6,822)	(24,157)
Decrease in obligations under capital lease	(45,596)	(41,856)
Common shares issued for cash	1,064,215	2,587,579
Decrease in bank indebtedness	<u>-</u>	<u>(100,500)</u>
	<u>1,011,797</u>	<u>2,421,066</u>
Effect of exchange rate changes on cash	<u>65,697</u>	<u>40,791</u>
Change in cash during the year	(378,833)	789,809
Cash and cash equivalents, beginning of the year	<u>1,275,944</u>	<u>486,135</u>
Cash and cash equivalents, end of the year	<u>\$ 897,111</u>	<u>\$ 1,275,944</u>
Supplementary cash flow information		
Cash paid for interest	<u>\$ 42,308</u>	<u>\$ 75,801</u>

Non-cash Transaction – Note 12

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
for the years ended June 30, 2006 and 2005
(Stated in US Dollars)

	Common Stock		Additional Capital – Stock-based Compensation	Accumulated Other Comprehensive Income (Loss)	Deficit	Total
	Issued Shares	Amount				
Balance, June 30, 2004	22,974,855	\$ 11,245,077	\$ 42,907	\$ (83,838)	\$ (9,705,080)	\$ 1,499,066
Issued for cash pursuant to a private placement						
– at \$0.48	2,400,000	1,152,000	-	-	-	1,152,000
– at \$0.85	1,470,000	1,249,500	-	-	-	1,249,500
Less: issue costs	-	(24,809)	-	-	-	(24,809)
Issued for cash pursuant to the exercise of share purchase options						
– at \$0.08	510,000	38,994	-	-	-	58,994
– at \$0.21	225,000	46,737	-	-	-	46,737
– at \$0.61	10,000	6,051	-	-	-	6,051
Issued for cash pursuant to the exercise of share purchase warrants						
– at \$0.66	180,000	119,106	-	-	-	119,106
Cancellation of escrow shares	(124,530)	-	-	-	-	-
Stock-based compensation charges	-	-	718,920	-	-	718,920
Foreign currency translation adjustment	-	-	-	40,791	-	40,791
Reclassification of stock-based compensation charges upon exercise of share purchase options	-	66,084	(66,084)	-	-	-
Reclassification as a result of adopting SFAS 123R, “Accounting for Share-based Payment” – Note 2(n)	-	-	32,967	-	(32,967)	-
Net loss for the year	-	-	-	-	(981,940)	(981,940)
Balance, June 30, 2005	27,645,325	13,898,740	728,710	(43,047)	(10,719,987)	3,864,416

.../cont'd

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
for the years ended June 30, 2006 and 2005
(Stated in US Dollars)

Continued

	Common Stock		Additional Capital –	Accumulated Other Comprehensive		
	Issued <u>Shares</u>	<u>Amount</u>	Stock-based <u>Compensation</u>	Income <u>(Loss)</u>	<u>Deficit</u>	<u>Total</u>
Balance, June 30, 2005	27,645,325	13,898,740	728,710	(43,047)	(10,719,987)	3,864,416
Issued for cash pursuant to the exercise of share purchase warrants						
- at \$0.60	217,000	130,200	-	-	-	130,200
- at \$0.61	200,000	122,000	-	-	-	122,000
- at \$0.62	165,000	102,300	-	-	-	102,300
- at \$0.63	320,000	201,600	-	-	-	201,600
- at \$0.64	575,000	368,000	-	-	-	368,000
Issued for cash pursuant to the exercise of share purchase options						
- at \$0.09	50,000	4,500	-	-	-	4,500
- at \$0.44	52,500	23,100	-	-	-	23,100
- at \$0.66	55,100	36,615	-	-	-	36,615
- at \$0.69	110,000	75,900	-	-	-	75,900
Stock-based compensation	-	-	217,407	-	-	217,407
Reclassification of stock-based compensation charges upon exercise of share purchase options	-	96,997	(96,997)	-	-	-
Foreign currency translation adjustment	-	-	-	65,697	-	65,697
Net loss for the year	-	-	-	-	(211,724)	(211,724)
Balance, June 30, 2006	<u>29,389,925</u>	<u>\$ 15,059,952</u>	<u>\$ 849,120</u>	<u>\$ 22,650</u>	<u>\$ (10,931,711)</u>	<u>\$ 5,000,011</u>

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006 and 2005
(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.

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.

Previously, the Company reported on Form 20-F using generally accepted accounting principles in Canada ("Canadian GAAP") and the reporting currency was Canadian dollars. As a result of more than 50% of its shareholders residing in the United States of America, the Company, during the year ended June 30, 2006, changed to using generally accepted accounting principles in the United States of America ("US GAAP") and changed its reporting currency to US dollars.

Note 2 Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with US GAAP and are stated in US dollars. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. Actual results may differ from these estimates.

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.

Note 2 Significant Accounting Policies – (cont'd)

c) Inventory

Inventory is valued by management at the lower of average cost and net realizable value. In November 2004, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 151, “Inventory Costs”. SFAS No. 151 requires that abnormal amounts of idle facility expense, freight, handling and wasted material be recognized as current period charges rather than inventory value. The provisions of this standard are effective for fiscal years commencing after June 15, 2005. The Company adopted this standard at the beginning of its 2006 fiscal year but management believes the adoption of this standard was not inconsistent with the existing accounting policy for inventory costs.

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 following methods and rates:

Manufacturing equipment	straight line over 5 years
Equipment and furniture	20% - declining balance
Computer equipment	30% - declining balance
Railway spur	4% - declining balance
Leasehold improvements	straight line over 5 years
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

e) Impairment of Long-Lived Assets

The Company periodically reviews the useful lives and the carrying values of its long-lived assets for continued appropriateness. The Company reviews long-lived assets for impairment annually or whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. An impairment loss is measured at the amount by which the carrying amount of the long-lived asset exceeds its fair value.

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

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 and revenues and expenses are translated at the exchange rate prevailing at the respective transaction dates. Exchange gains and losses related to foreign currency translations are recognized in the current year. Cumulative transaction adjustments associated with net assets are reported as a separate component of other comprehensive income or loss in the statement of stockholders' equity.

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.

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.

- Credit Risk

The Company grants credit to its customers in the normal course of business. Credit evaluations are performed on a regular basis and the financial statements take into account an allowance for bad debts. During the year ended June 30, 2006, two customers accounted for 66% 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 2 Significant Accounting Policies – (cont'd)

j) Financial Instruments – (cont'd)

- Currency Risk

The Company holds cash of \$817,503 in Canadian dollars exposing it to a foreign currency exchange risk.

k) Revenue Recognition

i) Building Supplies

Revenue is recognized upon shipment, when the rights of the ownership of the building supplies are transferred to the purchaser and collection is reasonably assured.

ii) Shipping and handling costs billed to customers have been included in revenue and shipping and handling costs expense have been included in cost of sales.

iii) License Fees

License fees revenue is recognized when the licensor records the sale of products from certain fire retardant technology known as IPOSB technology and collection is reasonably assured.

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) 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)

n) Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R, “Share Based Payment”, that addresses the accounting transactions in which a company exchanges its equity instruments for goods or services. SFAS No. 123R requires that such transactions be accounted for using a fair value based method. Adoption of SFAS No. 123R is effective for periods beginning after December 15, 2005. The Company adopted this pronouncement at the beginning of its 2005 fiscal year.

In June 2005, FASB issued SFAS No. 154, “Accounting Changes and Error Corrections,” a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS 154 applies to all voluntary changes in accounting principle and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods’ financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS No. 154 to have a material effect on the financial statements.

Note 3 Inventory

	<u>2006</u>	<u>2005</u>
Raw materials	\$ 243,822	\$ 83,795
Finished goods	<u>74,605</u>	<u>219,561</u>
	<u>\$ 318,427</u>	<u>\$ 303,356</u>

Note 4 Property, Plant and Equipment

	2006		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Manufacturing equipment	\$2,606,208	\$ 423,471	\$ 2,182,737
Equipment and furniture	29,778	19,091	10,687
Computer equipment	<u>28,938</u>	<u>17,456</u>	<u>11,482</u>
	<u>2,664,924</u>	<u>460,018</u>	<u>2,204,906</u>
Assets under capital lease			
Equipment	69,696	3,407	66,289
Land	54,498	-	54,498
Building	1,785,586	492,002	1,293,584
Railroad spur	<u>94,108</u>	<u>28,134</u>	<u>65,974</u>
	<u>2,003,888</u>	<u>523,543</u>	<u>1,480,345</u>
	<u>\$4,668,812</u>	<u>\$ 983,561</u>	<u>\$ 3,685,251</u>
	2005		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Manufacturing equipment	\$1,186,802	\$ 402,401	\$ 784,401
Equipment and furniture	12,987	10,224	2,763
Computer equipment	<u>23,428</u>	<u>16,630</u>	<u>6,798</u>
	<u>1,223,217</u>	<u>429,255</u>	<u>793,962</u>
Assets under capital lease			
Equipment	28,610	23,441	5,169
Land	54,498	-	54,498
Building	1,561,002	403,771	1,157,231
Railroad spur	<u>94,108</u>	<u>25,385</u>	<u>68,723</u>
	<u>1,738,218</u>	<u>452,597</u>	<u>1,285,621</u>
	<u>\$2,961,435</u>	<u>\$ 881,852</u>	<u>\$ 2,079,583</u>

Amortization of assets under capital leases included in amortization expense for the year ended June 30, 2006 is \$94,385 (2005: \$65,643).

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

Manufacturing equipment includes \$1,419,406 of equipment acquired during the year ended June 30, 2006 for which no amortization has been taken due to the equipment not yet being available for use.

Note 5 Patent, Trademark and Technology Rights

	<u>2006</u>	<u>2005</u>
Trademark and technology rights – at cost	\$1,000,000	\$ 1,000,000
Less: accumulated amortization	<u>(260,421)</u>	<u>(135,421)</u>
	739,579	864,579
Patent – at cost	<u>24,104</u>	<u>-</u>
	<u>\$ 763,683</u>	<u>\$ 864,579</u>

Note 6 Long-term Debt

	<u>2006</u>	<u>2005</u>
Loan payable in US dollars is unsecured, repayable in monthly amounts of \$625 including interest at 4% per annum, due March 10, 2008. The Company paid out this loan during the year ended June 30, 2006.	\$ -	\$ 15,922
Loan payable in US dollars is non-interest bearing, repayable in quarterly amounts of \$2,787 and is secured by a lien on the railway spur, due January 10, 2007	<u>27,300</u>	<u>27,300</u>
	27,300	43,222
Less: current portion	<u>(9,100)</u>	<u>(14,688)</u>
	<u>\$ 18,200</u>	<u>\$ 28,534</u>

Principal payments for the next three years are as follows:

2007	\$ 9,100
2008	9,100
2009	<u>9,100</u>
	<u>\$ 27,300</u>

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:

2007	\$ 96,475
2008	96,475
2009	89,684
2010	77,297
2011	73,621
Thereafter	<u>401,888</u>
	835,440
Less: amount representing interest	<u>(232,889)</u>
	602,551
Less: current portion	<u>(62,569)</u>
Long-term portion	<u>\$ 539,982</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, 2006 is \$30,441 (2005: \$31,232).

Note 8 Common Stock

a) Escrow:

At June 30, 2006, there are 48,922 common shares held in escrow by the Company's transfer agent, the release which is subject to the approval of the regulatory authorities.

b) Commitments:

Share Purchase Warrants

At June 30, 2006, the following share purchase warrants were outstanding entitling the holder to purchase one common share for each warrant held as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,890,000	\$0.66	March 22, 2007
<u>1,253,000</u>	\$0.92	August 20, 2008
<u>3,143,000</u>		

Note 8 Common Stock – (cont'd)

b) Commitments – (cont'd)

Stock-based Compensation Plan

The Company has a stock option plan for officers, directors, employees and consultants. Options are granted with an exercise price determined by the Board of Directors, which may not be less than the market price of the Company's stock on the date of the grant less applicable discounts permitted by the TSX, subject to a minimum price of \$0.10. All options granted under the plan vest in stages over 12 months with no more than 25% of the shares subject to the option vesting in any three-month period.

A summary of the status of company's share purchase option plan as of June 30, 2006 and 2005 and changes during the years ending on those dates is presented below:

	Number of <u>Shares</u>	Weighted Average Exercise <u>Price</u>
Outstanding, June 30, 2004	1,333,500	\$0.19
Granted	1,280,000	\$0.60
Exercised	<u>(745,000)</u>	<u>\$0.13</u>
Outstanding, June 30, 2005	1,868,500	\$0.52
Granted	670,000	\$0.75
Exercised	(267,600)	\$0.52
Expired	<u>(50,000)</u>	<u>\$0.90</u>
Outstanding, June 30, 2006	<u>2,220,900</u>	<u>\$0.60</u>
Exercisable, June 30, 2006	<u>2,025,900</u>	

Note 8 Common Stock – (cont'd)

The following summarizes information about share purchase options outstanding as at June 30, 2006:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
57,500	\$0.44	May 2, 2007
150,000	\$0.66	July 19,2007
400,000	\$0.80	October 6, 2007
20,000	\$0.50	February 23, 2008
378,500	\$0.09	March 5, 2008
120,000	\$0.69	March 6, 2008
<u>1,094,900</u>	<u>\$0.65</u>	<u>August 24, 2009</u>
<u>2,220,900</u>		

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

	<u>2006</u>	<u>2005</u>
Expected dividend yield	0.0%	0.0%
Expected volatility	70.48% - 12.50%	107.50%
Risk-free interest rate	3.02% - 4.50%	3.32% - 3.77%
Expected term in years	2 years	2 - 5 years

Note 9 Research and Development Costs

Research and development expense consists of the following for the years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Testing services	<u>\$ 93,732</u>	<u>\$ 79,666</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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Wages and management fees	<u>\$ 179,535</u>	<u>\$ 214,634</u>

Note 10 Related Party Transactions – (cont'd)

Included in accounts payable and accrued liabilities is \$4,365 (2005: \$4,059) owing to directors of the Company.

Note 11 Income Taxes

The Company has accumulated non-capital losses in Canada and the United States totalling approximately \$2,400,000 which expire beginning in 2007. In addition, the Company has Scientific Research and Experimental Development Expenditures in Canada of \$1,087,818 which may be carried forward indefinitely to reduce taxable income in future years.

Significant components of the Company's future income tax assets are as follows:

	<u>2006</u>	<u>2005</u>
Non-capital losses carried forward	\$ 963,449	\$ 633,508
Scientific Research and Experimental Development expenses	371,163	402,493
Property, plant and equipment	<u>3,137,754</u>	<u>2,267,458</u>
	4,472,366	3,303,459
Less valuation allowance	<u>(4,472,366)</u>	<u>(3,303,459)</u>
	<u>\$ -</u>	<u>\$ -</u>

The amount taken into income as a future tax asset must reflect that portion of the tax asset which are more likely-than-not to be realized from future operations. The Company has chosen to provide an allowance of 100% against all available tax assets, regardless of their terms of expiry.

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, 2006, the Company acquired equipment in the amount of \$44,620 by undertaking a capital lease obligation.

Note 13 Contingent Liability

The Company is a defendant in a lawsuit claiming damages for defective building materials. The amount of a loss, if any, is not determinable and, in the opinion of management, in consultation with independent counsel, this lawsuit is without merit.

Note 14 Subsequent Events

Subsequent to June 30, 2006:

- - the Company issued 25,000 common shares pursuant to the exercise of share purchase options at \$0.45 per option for total proceeds of \$11,200.
 - the Company granted 250,000 share purchase options at \$0.55 per share, which expire four years from the date of the grant.

Note 15 Differences Between Generally Accepted Accounting Principles in the United States of America and Canada

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) which differ in certain respects with those principles and practices that the Company would have followed had its financial statements been prepared in accordance with accounting principles and practices generally accepted in Canada (“Canadian GAAP”). Differences between US GAAP and Canadian GAAP are summarized below:

a) Comprehensive Income

US GAAP requires disclosure of comprehensive loss which, for the Company, is net income (loss) under US GAAP plus the change in the cumulative foreign exchange translation adjustment.

Under Canadian GAAP, the cumulative foreign exchange translation adjustment arising as a result from translating the financial statements of the parent company from its functional currency to the reporting currency is recorded in the statement of operations in the period in which it occurs. Recently issued CICA Handbook Section 1530, “Comprehensive Income”, does not require components of comprehensive income until fiscal periods that commence after October 1, 2006.

Note 15 Differences Between Generally Accepted Accounting Principles in the United States of America and Canada – (cont'd)

	<u>2006</u>	<u>2005</u>
b) Net loss for the year per US GAAP	\$ (211,724)	\$ (981,940)
Foreign currency translation adjustment	<u>65,697</u>	<u>40,791</u>
Net loss for the year per Canadian GAAP	<u>\$ (146,027)</u>	<u>\$ (941,149)</u>
Basic and diluted loss per share:		
US GAAP	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>
Canadian GAAP	<u>\$ (0.01)</u>	<u>\$ (0.04)</u>
Shareholders' equity per US GAAP	<u>\$ 5,000,011</u>	<u>\$ 3,864,416</u>
Accumulated other comprehensive income (loss) per US GAAP	22,650	(43,047)
Cumulative foreign currency translation adjustment	<u>(22,650)</u>	<u>43,047</u>
Accumulated other comprehensive income (loss) per Canadian GAAP	<u>-</u>	<u>-</u>
Deficit per US GAAP	(10,931,711)	(10,719,987)
Cumulative foreign currency translation adjustment	<u>22,650</u>	<u>(43,047)</u>
Deficit per Canadian GAAP	<u>\$ (10,909,061)</u>	<u>\$ (10,763,034)</u>
Shareholders' equity per Canadian GAAP	<u>\$ 5,000,011</u>	<u>\$ 3,864,416</u>