

INTERNATIONAL BARRIER TECHNOLOGY INC.

CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

(Stated in US Dollars)



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**To the Directors and Stockholders
International Barrier Technology Inc.**

We have audited the accompanying consolidated balance sheets of International Barrier Technology Inc. (the "Company") as of June 30, 2010 and 2009, and the related consolidated statements of operations, cash flows and changes in stockholders' equity for the years 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Barrier Technology Corp. at June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 6 to the consolidated financial statements, effective July 1, 2009, the Company changed its method of accounting for certain common stock purchase warrants with the adoption of new guidance on determining whether an instrument is indexed to an entity's own stock.

/s/ BDO CANADA LLP

Chartered Accountants

Vancouver, Canada
October 4, 2010

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED BALANCE SHEETS
June 30, 2010 and 2009
(Stated in US Dollars)

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current		
Cash and cash equivalents	\$ 863,121	\$ 210,723
Accounts receivable	102,098	179,778
Inventory – Note 3	255,830	314,002
Prepaid expenses and deposits	50,860	46,418
	<hr/>	<hr/>
	1,271,909	750,921
Property, plant and equipment – Note 4	3,585,058	3,826,091
Patent, trademark and technology rights– Note 5	145,289	272,105
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	\$ 5,002,256	\$ 4,849,117
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<u>LIABILITIES</u>		
Current		
Accounts payable and accrued liabilities – Note 11	\$ 369,457	\$ 365,209
Derivative Liability - Notes 6 and 9	2,519,600	-
Current portion of long term debt – Note 7	71,225	60,863
Current portion of obligation under capital leases – Note 8	54,593	53,894
	<hr/>	<hr/>
	3,014,875	479,966
Long-term debt – Note 7	484,360	860,597
Obligation under capital leases – Note 8	289,818	344,410
	<hr/>	<hr/>
	3,789,053	1,684,973
	<hr/>	<hr/>
<u>STOCKHOLDERS' EQUITY</u>		
Common stock – Note 9		
Authorized:		
100,000,000 common shares without par value		
Issued:		
44,414,926 common shares (2009: 29,414,926 common shares)	15,457,697	15,079,071
Additional paid-in capital	1,012,052	1,012,052
Accumulated deficit	(15,256,546)	(12,926,979)
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	1,213,203	3,164,144
	<hr/>	<hr/>
	\$ 5,002,256	\$ 4,849,117
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Commitments – Note 9

APPROVED BY THE DIRECTORS:

“David Corcoran” Director
David Corcoran

“Victor Yates” Director
Victor Yates

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended June 30, 2010 and 2009
(Stated in US Dollars)

	<u>2010</u>	<u>2009</u>
Sales	\$ 2,606,254	\$ 4,091,647
Cost of sales – Note 4	<u>2,530,632</u>	<u>3,514,493</u>
Gross profit	<u>75,622</u>	<u>577,154</u>
Expenses		
Accounting and audit fees	84,173	74,537
Consulting fees	6,959	2,255
Filing fees	26,303	18,648
Insurance	71,936	62,399
Impairment provision on trademark and technology rights – Note 5	-	113,746
Interest and bank charges	459	83
Legal fees	80,422	73,631
Loss on settlement of lawsuit – Note 14	-	50,000
Office and miscellaneous	48,619	105,320
Sales marketing and investor relations	79,569	66,876
Telephone	10,850	12,705
Transfer agent fees	8,480	16,005
Wages and management fees – Notes 9 and 11	<u>975,800</u>	<u>563,089</u>
	<u>1,393,570</u>	<u>1,159,294</u>
Loss before other income	<u>(1,317,948)</u>	<u>(582,140)</u>
Foreign exchange loss	(30,615)	(58,088)
Interest and other income – Note 15	93,017	7,521
Interest and penalties	(58,400)	-
Change in fair value of derivative liability – Notes 2 (j),6 and 9	(935,700)	-
Interest on long-term obligations	<u>(79,921)</u>	<u>(85,838)</u>
	<u>(1,011,619)</u>	<u>(136,405)</u>
Net loss for the year	<u>\$ (2,329,567)</u>	<u>\$ (718,545)</u>
Basic and diluted loss per share	<u>\$ (0.07)</u>	<u>\$ (0.02)</u>
Weighted average number of shares outstanding	<u>34,017,665</u>	<u>29,414,926</u>

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2010 and 2009
(Stated in US Dollars)

	<u>2010</u>	<u>2009</u>
Operating Activities		
Net loss for the year	\$ (2,329,567)	\$ (718,545)
Items not involving cash:		
Depreciation – plant and equipment	264,101	264,122
Amortization – patent, trademark and technology rights	126,816	126,416
Stock-based compensation	500,900	9,820
Settlement of lawsuit	-	50,000
Impairment provision on trademark and technology rights	-	113,746
Change in fair value of derivative liability	935,700	-
Changes in non-cash working capital balances related to operations:		
Accounts receivable	77,680	180,639
Inventory	58,172	(20,023)
Prepaid expenses and deposits	(4,442)	12,452
Deferred revenue	-	(7,159)
Accounts payable and accrued liabilities	4,248	(330,447)
	<u>(366,392)</u>	<u>(318,979)</u>
Investing Activities		
Purchase of plant and equipment	<u>(23,068)</u>	<u>(14,196)</u>
Financing Activities		
Bank loan facility	-	475,000
Issuance of common shares, net of share issue costs	1,461,626	-
Issuance of long-term debt	-	500,000
Repayments on long-term debt	(365,875)	(803,540)
Decrease in obligations under capital lease	(53,893)	(63,988)
	<u>1,041,858</u>	<u>107,472</u>
Increase in cash during the year	652,398	(225,703)
Cash and cash equivalents, beginning of the year	<u>210,723</u>	<u>436,426</u>
Cash and cash equivalents, end of the year	<u>\$ 863,121</u>	<u>\$ 210,723</u>
Supplementary cash flow information		
Cash paid for interest	<u>\$ 79,921</u>	<u>\$ 85,838</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
for the years ended June 30, 2010 and 2009
(Stated in US Dollars)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Issued Shares	Amount			
Balance, June 30, 2008	29,414,926	\$ 15,079,071	\$ 1,002,232	\$ (12,208,434)	\$ 3,872,869
Stock-based compensation	-	-	9,820	-	9,820
Net loss for the year	-	-	-	(718,545)	(718,545)
Balance, June 30, 2009	29,414,926	15,079,071	1,012,052	(12,926,979)	3,164,144
Issued for cash pursuant to private placement – at \$0.0988	15,000,000	1,482,974	-	-	1,482,974
Less: Proceeds allocated to warrants – Note 6	-	(1,083,000)	-	-	(1,083,000)
Less: Share Issue costs	-	(21,348)	-	-	(21,348)
Net loss for the year	-	-	-	(2,329,567)	(2,329,567)
Balance June 30. 2010	44,414,926	\$ 15,457,697	\$ 1,012,052	\$ (15,256,546)	\$ 1,213,203

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009
(Stated in US Dollars)

Note 1 Nature of Operations and Ability to Continue as a Going Concern

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 consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") 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. 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 has no formal plan in place to address this concern but considers obtaining additional funds by equity financing and/or from issuing promissory notes. 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-V") and the OTC Bulletin Board in the United States of America. During the years ended June 30, 2010 and June 30, 2009, 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, derivative liability, 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.

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2010 and 2009
 (Stated in US Dollars)

Note 2 Significant Accounting Policies – (cont'd)

b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term term deposits, redeemable within 90 days of inception, held at Canadian banks.

c) Inventory

Inventory is valued by management at the lower of FIFO (first-in, first-out) and net realizable value. In addition, items such as abnormal amounts of idle facility expense, freight, handling and wasted material are recognized as current period charges rather than inventory value.

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

Plant and equipment and trademark and technology rights are recorded at cost. Depreciation is provided as follows:

Manufacturing equipment	straight line over estimated useful lives ranging from 5 years to 30 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
Patent, trademark and technology rights	straight line over 8 years

Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful economic life.

e) Impairment of Long-Lived Assets

The Company reviews the recoverability of its 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.

f) Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all 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.

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009
(Stated in US Dollars)

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 the statement of operations.

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 net loss per common share is calculated by dividing net loss by the weighted-average number of common shares outstanding for the period. Diluted net loss per common share is the same as basic net loss per common share, since potentially dilutive securities from stock options would have an anti-dilutive effect because the Company incurred a net loss during each period presented. The number of shares potentially issuable at June 30, 2010 and 2009 upon exercise or conversion that were not included in the computation of net loss per share totaled 19,330,000 and 1,941,750 respectively

j) Fair Value Measurements

The book value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank loan facility, long-term debt and obligation under capital leases approximate their fair values. The fair value hierarchy under GAAP is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1- quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable; and

Level 3 - assets and liabilities whose significant value drivers are unobservable by little or no market activity and that are significant to the fair value of the assets or liabilities.

As at June 30, 2010, the Company's Level 3 liabilities consisted of the warrants issued in connection with the Company's offering of equity units in a private placement (Note 6) as well as the transfer in of share purchase options granted to non-employees during the year (Note 9). The resulting Level 3 liabilities have no active market and are required to be measured at their fair value each reporting period based on information that is unobservable. A summary of the Company's Level 3 liabilities for the years ended December 31, 2009 and 2008 is as follows:

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009
(Stated in US Dollars)

Note 2 Significant Accounting Policies – (cont'd)

j) Fair Value Measurements – (cont'd)

	Beginning Fair Value of Level 3 Liabilities	Issuance of Level 3 liabilities – Note 6	Transfers in of Level 3 liabilities – Note 9	Change in fair value of Level 3 liabilities included in earnings	Ending Fair Value of Level 3 Liabilities
For the 12 months ended June 30, 2010	\$ -	\$ 1,083,000	\$ 31,900	\$ 935,700	\$ 2,050,600
For the 12 months ended June 30, 2009	\$ -	\$ -	\$ -	\$ -	\$ -

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 are provided for in the financial statements and consistently have been within the allowance provided. The allowance is an estimate of the uncollectibility of accounts receivable based on an evaluation of specific customer risks along with additional reserves based on historical and probable bad debt experience. Amounts are written off against the allowance in the period the Company determines that the receivable is uncollectible. The Company has not recorded an allowance for doubtful accounts against its accounts receivable in each of the years ended June 30, 2010 or June 30, 2009. During the year ended June 30, 2010, one customer accounted for 72% and one customer accounted for 16% (2009: one customer accounted for 69%) of the Company's sales and the balance of accounts receivable from these customers represented 63% of the total accounts receivable as at June 30, 2010 (June 30, 2009: 44%). The loss 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.

Currency Risk

The Company holds cash of \$858,156 (2009 - \$184,032) in Canadian dollars exposing it to a foreign currency exchange risk.

l) Revenue Recognition

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) collectability is reasonably assured. The Company recognizes revenue when the building supplies have been shipped.

The Company has not disclosed revenues by individual products and services as it impracticable to do.

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009
(Stated in US Dollars)

Note 2 Significant Accounting Policies – (cont'd)

l) Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Deferred 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. Deferred 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 deferred income tax assets and liabilities is recognized in operations in the year of change. A valuation allowance is 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 is fully vested and non-forfeitable as at the grant date is measured and recognized at that date.

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 paid-in capital is recorded as an increase to share capital. Share purchase options granted to employees are accounted for as liabilities when they contain conditions or other features that are indexed to other than a market, performance or service condition.

The Company uses the Black-Scholes option pricing model to calculate the fair value of share purchase options. 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) Derivative Liabilities

ASC 815 (*Prior authoritative literature: FAS 133, “Accounting for Derivative Instruments and Hedging Activities”*) requires free standing warrants and share purchase options classified as liabilities to be measured at fair value. These instruments are adjusted to reflect fair value at each period end. Any increase or decrease in the fair value are recorded in results of operations as change in fair value of derivative liabilities except for changes in the fair value of employee stock options classified as liabilities being recorded in wages and management fees.

In determining the appropriate fair value, the Company used the Black Scholes pricing model.

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009
(Stated in US Dollars)

Note 2 Significant Accounting Policies – (cont'd)

o) Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In March 2008, the FASB issued guidance included in ASC 815-10 "*Derivatives and Hedging*," which seeks to enhance disclosure about how and why a company uses derivatives; how derivative instruments are accounted for and how derivatives affect a company's financial position, financial performance and cash flows. This guidance was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of ASC 815-10 on July 1, 2009 had no material impact on the Company's financial statements.

In June 2008, the FASB ratified guidance which is now part of ASC 815-40, "*Contracts Indexed to the Entity's Own Equity*". The objective of this issue is to provide guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock. This Issue applies to any freestanding financial instrument or embedded feature that has all the characteristics of a derivative instrument or an instrument which may be potentially settled in an entity's own stock regardless of whether the instrument possess derivative characteristics. This issue provides a two-step approach to assist in making these determinations and is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of ASC 815-40 on July 1, 2009 had no material impact on the Company's financial statements. As discussed in Note 6, during the year ended June 30, 2010, the Company issued warrants as part of an offering of equity units. These common stock purchase warrants were not issued with the intent of effectively hedging any future cash flow, fair value of any asset, liability or any net investment in a foreign operation. The warrants do not qualify for hedge accounting, and as such, all future changes in the fair value of these warrants will be recognized currently in earnings until such time as the warrants are exercised or expire.

In April 2009, the FASB issued additional disclosure requirements related to fair values, which are included in ASC 820, "*Interim Disclosures about Fair Value of Financial Instruments*." The provisions require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The required disclosures were effective for interim reporting periods ending after June 15, 2009. The adoption of the provisions did not have a material impact on the Company's statements of financial position, results of operations and cash flows.

In May 2009, the FASB issued ASC No. 855, "*Subsequent Events*," which established general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. It sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date and up to the date the financial statements are issued. ASC 855 was effective for financial statements issued for interim and annual periods ending after June 15, 2009 and did not have any impact on the Company's financial statements.

In June 2009, the Financial Accounting Standards Board, or FASB, established the FASB Accounting Standards Codification, or ASC, as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. All other accounting literature not included in the ASC is now non-authoritative. The ASC was effective for financial statements issued for interim and annual periods ending after September 15, 2009 and its adoption did not have any impact on the Company's financial statements.

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2010 and 2009
 (Stated in US Dollars)

Note 2 Significant Accounting Policies – (cont'd)

o) Recent Accounting Pronouncements – (cont'd)

Recently Adopted Accounting Pronouncements – (cont'd)

In August 2009, the FASB issued ASU No. 2009-05, “*Measuring Liabilities at Fair Value*,” or ASU 2009-05, which amends ASC 820 to provide clarification of a circumstances in which a quoted price in an active market for an identical liability is not available. A reporting entity is required to measure fair value using one or more of the following methods: 1) a valuation technique that uses a) the quoted price of the identical liability when traded as an asset or b) quoted prices for similar liabilities (or similar liabilities when traded as assets) and/or 2) a valuation technique that is consistent with the principles of ASC 820. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to adjust to include inputs relating to the existence of transfer restrictions on that liability. The adoption of this ASU did not have an impact on the Company’s financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*, which requires additional disclosures about the amounts of and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements. This standard also clarifies existing disclosure requirements related to the level of disaggregation of fair value measurements for each class of assets and liabilities and disclosures about inputs and valuation techniques used to measure fair value for both recurring and non-recurring Level 2 and Level 3 measurements. Since this new accounting standard only required additional disclosure, the adoption of the standard in the first quarter of 2010 did not impact the Company’s consolidated financial statements. Additionally, effective for interim and annual periods beginning after December 15, 2010, this standard will require additional disclosure and require an entity to present disaggregated information about activity in Level 3 fair value measurements on a gross basis, rather than one net amount.

In April 2010, the FASB issued ASU No. 2010-13, “*Compensation – Stock Compensation*,” or ASU 2010-13, which amends ASC Topic 718 to address the classification of an employee share-based payment award with an exercise price denominated in a currency of a market in which the underlying security trades. Specifically, an employee share-based payment award denominated in a currency of a market in which a substantial portion of the entity’s equity securities trades should not be considered to contain a condition that is not a market, performance or service condition and therefore would not classify the award as a liability if it otherwise qualifies as equity. This update is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company is currently evaluating the effect of ASU 2010-13 will have on its financial statements.

Note 3 Inventory

	<u>2010</u>	<u>2009</u>
Raw materials	\$ 179,105	\$ 164,260
Finished goods	76,725	149,742
	<hr/>	<hr/>
	\$ 255,830	\$ 314,002

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009
(Stated in US Dollars)

Note 4 Property, Plant and Equipment

	2010		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Manufacturing equipment	\$ 3,444,695	\$ 1,075,803	\$ 2,368,892
Equipment and furniture	33,194	31,100	2,094
Computer equipment	30,032	27,823	2,209
	<u>3,507,921</u>	<u>1,134,726</u>	<u>2,373,195</u>

	2010		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Assets under capital lease			
Equipment	69,696	31,277	38,419
Land	54,498	-	54,498
Building	1,877,801	809,769	1,068,032
Railroad spur	94,108	43,194	50,914
	<u>2,096,103</u>	<u>884,240</u>	<u>1,211,863</u>
	<u>\$ 5,604,024</u>	<u>\$ 2,018,966</u>	<u>\$ 3,585,058</u>

	2009		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Manufacturing equipment	\$ 3,422,720	\$ 907,283	\$ 2,515,437
Equipment and furniture	33,194	28,664	4,530
Computer equipment	28,938	25,530	3,408
	<u>3,484,852</u>	<u>961,477</u>	<u>2,523,375</u>

	2009		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Assets under capital lease			
Equipment	69,696	24,317	45,379
Land	54,498	-	54,498
Building	1,877,802	729,645	1,148,157
Railroad spur	94,108	39,426	54,682
	<u>2,096,104</u>	<u>793,388</u>	<u>1,302,716</u>
	<u>\$ 5,580,956</u>	<u>\$ 1,754,865</u>	<u>\$ 3,826,091</u>

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009
(Stated in US Dollars)

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009
(Stated in US Dollars)

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

During the year ended June 30, 2010, the Company recorded depreciation expense of \$264,101 (2009: \$264,122) on its property, plant and equipment. This amount is included in cost of sales in the Statement of Operations

Depreciation of assets under capital leases included in amortization expense for the year ended June 30, 2010 was \$90,852 (2009: \$85,147).

Note 5 Patent, Trademark and Technology Rights

	<u>2010</u>	<u>2009</u>
Trademark and technology rights – at cost	\$ 1,000,000	\$ 1,000,000
Patent – at cost	24,104	24,104
	<u>1,024,104</u>	<u>1,024,104</u>
Less: Accumulated amortization	(765,069)	(638,253)
Impairment provision	(113,746)	(113,746)
	<u>\$ 145,289</u>	<u>\$ 272,105</u>

During the year ended June 30, 2009, as a result of adverse changes in the business environment in which the Company operates and as a result of continuing operating losses, an impairment analysis was performed on its trademark and technology rights. The impairment analysis consisted of comparing the estimated undiscounted cash flows associated with these rights to their carrying value and' as a result, the Company recorded an impairment provision of \$113,746.

Note 6 Warrant Liability

During the year ended June 30, 2010, the Company sold 15,000,000 units at \$ 0.10 CDN per unit for total proceeds of \$1,482,974 (\$1,500,000 CDN). Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase an additional common share at \$CDN 0.15 for a period of two years. Upon the adoption of the guidance in ASC 815-40-15 which became effective for the fiscal year that commenced July 1, 2009, the Company recorded the warrants issued as derivative liabilities due to their exercise price being denominated in a currency other than the Company's US dollar functional currency.

The warrant liability is accounted for at its respective fair values as follows:

	<u>2010</u>	<u>2009</u>
Fair value of warrant liability, at issuance	\$ 1,083,000	\$ -
Change in fair value of warrant liability for the period	<u>927,000</u>	<u>-</u>
Fair value of warrant liability at June 30, 2010	<u>\$ 2,010,000</u>	<u>\$ -</u>

The Company used the Black-Scholes model to estimate the fair value of the warrants with the following assumptions:

	<u>At June 30, 2010</u>	<u>At date of issuance</u>
Expected life (years)	1.72	2.0
Risk-free interest rate	0.32%	0.92%
Expected volatility	145.84%	145.84%
Expected dividend yield	0.0%	0.0%

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009
(Stated in US Dollars)

Note 6 Warrant Liability – (cont'd)

The warrant liability will be revalued at the end of each reporting period with the change in fair value of the derivative liability recorded as a gain or loss in the Company's Consolidated Statements of Operations. The fair value of the warrants will continue to be classified as a liability until such time as they are exercised, expire or there is an amendment to the respective agreements that renders these financial instruments to be no longer classified as a liability.

At the time of the private placement offering, the Company allocated the proceeds to each of the common shares and warrants. Because the warrants were classified as a liability and are subsequently marked to fair value through earnings in each reporting period, the Company allocated proceeds of \$1,083,000 to the warrants at inception with the residual proceeds of \$399,974 allocated to common stock.

Note 7 Long-term Debt

	<u>2010</u>	<u>2009</u>
Revolving bank loan facility in the amount of \$500,000 bearing interest at 7.5% per annum and secured by a security interest in inventory, accounts receivable, equipment and all intangibles of the Company as well as an assignment of the building lease. The balance was due on August 1, 2010.	\$ 250,000	\$ 475,000
Term bank loan facility in the amount of \$500,000 bearing interest at 7% per annum and secured by a second charge over the real estate. The facility is being amortized over 7 years with fixed monthly blended payments of principal and interest totaling \$7,550 and has a balloon payment due July 1, 2012.	<u>305,585</u>	<u>446,460</u>
	555,585	921,460
Less: Current portion	<u>71,225</u>	<u>60,863</u>
	<u>\$ 484,360</u>	<u>\$ 860,597</u>

During the year ended June 30, 2009, the terms of the revolving bank facility were modified to include a \$500,000 capital loan being amortized by the bank over a 7-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 as at June 30, 2010

Subsequent to June 30, 2010 and prior to the issuance of the financial statements, the Company amended the terms of the revolving bank facility to extend the maturity date to September 1, 2011, to reduce the annual interest rate to 6.75% and to amend the limit on the bank facility to \$250,000. Thus, in accordance with ASC 470-10-45, the Company has classified the revolving bank facility as a long-term liability as at June 30, 2010.

Future principal payments required on long-term debt are as follows:

2011	\$ 71,225
2012	326,345
2013	<u>158,015</u>
	<u>\$ 555,585</u>

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2010 and 2009
 (Stated in US Dollars)

Note 8 Obligation under Capital Leases

Future minimum annual lease payments on the obligation under capital leases are as follows:

2011	\$ 73,621
2012	73,621
2013	73,621
2014	73,621
2015	73,621
2016	36,813
Thereafter	<u>-</u>
	404,918
Less: amount representing interest	<u>(60,507)</u>
	344,411
Less: current portion	<u>(54,593)</u>
Long-term portion	<u>\$ 289,818</u>

The capital leases bear interest at various rates from 4.75% to 6% per annum.

Interest on capital leases included in interest on long-term debt for the year ended June 30, 2010 was \$22,161 (2009: \$25,469).

Note 9 Common Stock

a) Escrow:

At June 30, 2010, there are 48,922 (2009 – 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. As at June 30, 2010, all of these shares held in escrow are issuable but the Company has yet to request their release. These shares have been included in the computation of net loss per share.

b) Commitments:

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.

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009
(Stated in US Dollars)

Note 9 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, 2010 and 2009 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, 2008	2,107,550	\$0.57	\$ -
Granted	40,000	\$0.09	-
Expired	(149,550)	\$0.55	-
Forfeited	<u>(56,250)</u>	\$0.45	<u>-</u>
Outstanding, June 30, 2009	<u>1,941,750</u>	\$0.56	<u>\$ 2,400</u>
Granted	4,040,000	\$0.12 CDN	-
Expired	(1,601,750)	\$0.65	-
Forfeited	<u>(50,000)</u>	\$0.45	<u>-</u>
Outstanding June 30, 2010	<u>4,330,000</u>	\$0.12	<u>\$ 293,553</u>
Exercisable, June 30, 2010	<u>3,920,000</u>	\$0.14	
Exercisable, June 30, 2009	<u>1,839,250</u>	\$0.57	

The following summarizes information about share purchase options outstanding as at June 30, 2010:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	<u>Remaining Contractual Life</u>
250,000	\$0.55	August 9, 2010	.11 years
40,000	\$0.09	March 7, 2011	.68 years
400,000	\$0.15 CDN	December 17, 2011	1.5 years
3,640,000	\$0.12 CDN	March 18, 2012	1.72 years
<u>4,330,000</u>			

The weighted-average grant date fair value of options granted during the years 2010 and 2009 was \$0.11 and \$0.11 respectively. Subsequent to June 30, 2010, the 250,000 stock options exercisable at \$0.55 until August 9, 2010 expired unexercised.

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2010 and 2009
 (Stated in US Dollars)

Note 9 Common Stock – (cont'd)

b) Commitments: - (cont'd)

Stock-based Compensation Plan – (cont'd)

During the year ended June 30, 2010, the Company granted a total of 4,040,000 share purchase options to various directors, employees and consultants that are exercisable in Canadian dollars whereas the functional currency of the Company is the US dollar.

Non-Employee Share Purchase Options

In accordance with the guidance of ASC 815-40-15, stock options granted to non-employees with exercise prices that are not denominated in the functional currency of the Company are determined not to be indexed to the Company's stock and are required to be accounted for as derivative liabilities in accordance with ASC 815 "Derivatives and Hedging".

The non-employee share purchase option liabilities are accounted for at their respective fair values and are summarized as follows:

	<u>2010</u>	<u>2009</u>
Fair value of non-employee options, at issuance	\$ 31,900	\$ -
Change in fair value of non-employee options for the period	<u>8,700</u>	<u>-</u>
Fair value of non-employee options at June 30, 2010	<u>\$ 40,600</u>	<u>\$ -</u>

The non-employee options are required to be revalued with the change in fair value of the liability recorded as a gain or loss on the change of fair value of derivative liability and included in other items in the Company's Consolidated Statements of Operations at the end of each reporting period. The fair value of the options will continue to be classified as a liability until such time as they are exercised, expire or there is an amendment to the respective agreements that renders these financial instruments to be no longer classified as a liability.

Employee Share Purchase Options

Share options granted to employees during the year ended June 30, 2010 that are exercisable in Canadian dollars are accounted for as liabilities because these option awards contain a condition that is other than a market, performance or service condition.

The share purchase option liabilities are accounted for at their respective fair values and are summarized as follows:

	<u>2010</u>	<u>2009</u>
Fair value of option liabilities, at issuance	\$ 368,500	\$ -
Change in fair value of employee options for the period	<u>100,500</u>	<u>-</u>
Fair value of option liabilities at June 30, 2010	<u>\$ 469,000</u>	<u>\$ -</u>

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009
(Stated in US Dollars)

Note 9 Common Stock – (cont'd)

b) Commitments: - (cont'd)

Stock-based Compensation Plan – (cont'd)

Employee Share Purchase Options – (cont'd)

The employee share options that are classified as liabilities are required to be revalued with the change in fair value of the liability included in Wages and Management fees in the Company's Consolidated Statements of Operations at the end of each reporting period. The fair value of the options will continue to be classified as a liability until such time as they are exercised, expire or there is an amendment to the respective agreements that renders these financial instruments to be no longer classified as a liability.

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

	<u>2010</u>	<u>2009</u>
Expected dividend yield	0.0%	0.0%
Expected volatility	145.84%	174%
Risk-free interest rate	0.41%	2.02%
Expected term in years	1.95 years	1.61 years

Stock-based compensation amounts are classified in the Company's Statement of Operations as follows:

	<u>2010</u>	<u>2009</u>
Wages and management fees	<u>\$ 500,900</u>	<u>\$ 9,820</u>

A summary of changes in the Company's unvested stock options for the years ended June 30, 2010 and 2009 is presented below:

	<u>2010</u>		<u>2009</u>	
	Number of Options	Weighted Average Grant Date Fair Value	Number of Options	Weighted Average Grant Date Fair Value
Outstanding, beginning of year	102,500	\$0.09	237,500	\$0.08
Granted	4,040,000	\$0.11	40,000	\$0.11
Expired	(60,000)	\$0.09	-	-
Forfeited	(12,500)	\$0.09	(56,250)	\$0.08
Vested	<u>(3,660,000)</u>	\$0.11	<u>(118,750)</u>	\$0.07
Outstanding, end of year	<u>410,000</u>	\$0.13	<u>102,500</u>	\$0.09

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009
(Stated in US Dollars)

Note 9 Common Stock – (cont'd)

b) Commitments: - (cont'd)

Stock-based Compensation Plan – (cont'd)

Warrants

At June 30, 2010, 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>
<u>15,000,000</u>	\$0.15 CDN	March 18, 2012

Note 10 Research and Development Costs

Research and development expense, included in cost of sales, consists of the following for the years ended June 30, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Testing services	\$ 35,901	\$ 17,091

Note 11 Related Party Transactions

The Company was charged the following amounts by directors or private companies with common directors during the years ended June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Wages and management fees	\$ 181,064	\$ 173,717
Share-based compensation	413,000	-
	<u>\$ 594,064</u>	<u>\$ 173,717</u>

Included in accounts payable and accrued liabilities is \$3,634 (2009: \$2,937) owing to a director of the Company.

Note 12 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>2010</u>	<u>2009</u>
Net operating losses	\$ 1,566,000	\$ 1,289,000
Property, plant and equipment	(113,000)	(115,000)
Stock option deduction	45,000	-
Expenses not currently deductible	10,000	3,000
Valuation allowance	(1,508,000)	(1,177,000)
	<u>\$ -</u>	<u>\$ -</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009
(Stated in US Dollars)

Note 12 Income Taxes – (cont'd)

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

	June 30, <u>2010</u>	June 30, <u>2009</u>
Income tax benefit at statutory rate	\$ (676,000)	\$ (216,000)
Foreign income taxed at foreign statutory rate	(35,000)	(11,000)
Expiry of losses	9,000	8,000
Change in fair value of derivative liability	271,000	-
Stock-based compensation	87,000	-
Effect of foreign exchange and other	(18,000)	211,000
Effect of reduction in tax rates	31,000	12,000
Increase (decrease) in valuation allowance	<u>331,000</u>	<u>(4,000)</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, 2010 and June 30, 2009.

As at June 30, 2010, the Company had estimated net operating loss carry-forwards available to reduce taxable income in future years, which were incurred in the United States and Canada as follows:

	<u>United States</u>	<u>Canada</u>	<u>Total</u>
2014	\$ -	\$ 81,000	\$ 81,000
2015	-	161,000	161,000
2017	277,000	-	277,000
2018	259,000	-	259,000
2019	194,000	-	194,000
2020	146,000	-	146,000
2021	208,000	-	208,000
2022	134,000	-	134,000
2023	32,000	-	32,000
2024	134,000	-	134,000
2026	-	173,000	173,000
2027	331,000	207,000	538,000
2028	848,000	176,000	1,024,000
2029	493,000	188,000	681,000
2030	<u>748,000</u>	<u>106,000</u>	<u>854,000</u>
	<u>\$ 3,804,000</u>	<u>\$ 1,092,000</u>	<u>\$ 4,896,000</u>

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 and 2009
(Stated in US Dollars)

Note 12 Income Taxes – (cont'd)

Uncertain Tax Positions

The Company has adopted certain provisions of ASC 740, "Income Taxes" (previously reported as FIN 48 "Accounting for Uncertainty in Income Taxes"), which 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. The provisions also provide guidance on the 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. The Company currently has no tax years under examination. The Company is subject to tax examinations by tax authorities for all taxation years commencing after 2003.

At June 30, 2010, the Company does not have an accrual relating to uncertain tax positions. It is not anticipated that unrecognized tax benefits would significantly increase or decrease within 12 months of the reporting date.

Provision has not been made for U.S. or additional foreign taxes on undistributed earnings of foreign subsidiaries. Such earnings have been and will continue to be reinvested but could become subject to additional tax if they were remitted as dividends, or were loaned to the Company affiliate. It is not practicable to determine the amount of additional tax, if any, that might be payable on the undistributed foreign earnings.

Note 13 Segmented information and sales concentration

The Company operates in one industry segment being the manufacturing and marketing of fire resistant building materials. Substantially all of the Company's revenues and long-term assets are located in the United States.

Note 14 Loss on Settlement of Lawsuit

During the year ended June 30, 2009, the Company reached a settlement in a lawsuit initiated by a plaintiff for defective building materials by agreeing to pay the plaintiff an amount of \$50,000.

Note 15 Interest and Other Income

Interest and other income includes an amount of \$90,000 in respect of funds received from Pyrotite Corporation ("Pyrotite") as final mediated settlement of a dispute over an agreement between Pyrotite and the Company to share revenues earned from the sale of products utilizing a fire retardant technology. In addition to the payment, Pyrotite agreed to convey all of its right, title and interest in the technology to the Company.