

**INTERNATIONAL BARRIER TECHNOLOGY INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2011 and 2010

(Stated in US Dollars)



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## **Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders  
International Barrier Technology Inc.

We have audited the accompanying consolidated balance sheets of International Barrier Technology Inc. as of June 30, 2011 and 2010 and the related 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 audits 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Barrier Technology Inc. at June 30, 2011 and 2010 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 of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company had an accumulated deficit of \$14,360,735 at June 30, 2011 and had a working capital deficit of \$701,934. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Chartered Accountants**

**Vancouver, Canada**

**October 3, 2011**

**INTERNATIONAL BARRIER TECHNOLOGY, INC.****CONSOLIDATED BALANCE SHEETS**

June 30, 2011 and 2010

(Stated in US Dollars)

<b><u>ASSETS</u></b>	June 30, 2011	June 30, 2010
Current		
Cash and cash equivalents	\$ 268,742	\$ 863,121
Accounts receivable	49,825	102,098
Inventory (Note 3)	230,226	255,830
Prepaid expenses and deposits	46,359	50,860
	<u>595,152</u>	<u>1,271,909</u>
Property, plant and equipment (Note 4)	3,387,810	3,585,058
Patent, trademark, and technology rights (Note 5)	19,273	145,289
	<u>\$ 4,002,235</u>	<u>\$ 5,002,256</u>

<b><u>LIABILITIES</u></b>		
Current		
Accounts payable and accrued liabilities	\$ 401,562	\$ 369,457
Customer deposits	19,844	-
Derivative liability (Notes 6 and 9)	741,357	2,519,600
Current portion of long term debt (Note 7)	76,412	71,225
Obligation under capital leases (Note 8)	57,911	54,593
	<u>1,297,086</u>	<u>3,014,875</u>
Long-term debt (Note 7)	339,709	484,360
Obligation under capital leases (Note 8)	231,907	289,818
	<u>1,868,702</u>	<u>3,789,053</u>

<b><u>STOCKHOLDERS' EQUITY</u></b>		
Common Stock		
Authorized:		
100,000,000 common shares without par value		
Issued:		
44,454,926 common shares (2010: 44,414,926) (Note 9)	15,463,675	15,457,697
Additional paid-in capital	1,030,593	1,012,052
Accumulated deficit	(14,360,735)	(15,256,546)
	<u>2,133,533</u>	<u>1,213,203</u>
	<u>\$ 4,002,235</u>	<u>\$ 5,002,256</u>

APPROVED BY THE BOARD OF DIRECTORS

"David Corcoran"

David Corcoran

Director

"Victor Yates"

Victor Yates

Director

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY, INC.****CONSOLIDATED STATEMENT OF OPERATIONS**

June 30, 2011 and 2010

(Stated in US Dollars)

	2011	2010
Sales	\$ 3,256,019	\$ 2,606,254
Cost of Sales	3,145,931	2,530,632
Gross Profit	110,088	75,622
Expenses		
Accounting and audit fees	86,575	84,173
Filing Fees	22,537	26,303
Insurance	85,121	71,936
Interest and bank charges	441	459
Legal fees	62,979	80,422
Office and miscellaneous	52,382	48,619
Sales, marketing, and investor relations (Note 9)	208,944	88,269
Telephone	11,011	10,850
Transfer agent fees	8,539	8,480
Wages and management fees (Notes 9 and 11)	121,667	982,759
	660,196	1,402,270
Loss before other income	(550,108)	(1,326,648)
Foreign exchange gain (loss)	37,919	(30,615)
Interest and other income (Note 14)	4,296	93,017
Interest and penalties	-	(58,400)
Change in fair value of derivative liability (Note 6)	1,453,238	(927,000)
Interest on long-term obligations	(49,534)	(79,921)
	1,445,919	(1,002,919)
Net income (loss) for the year	\$ 895,811	\$ (2,329,567)
Basic and diluted income (loss) per share	\$ 0.02	\$ (0.07)
Weighted average number of shares outstanding	44,426,542	34,017,665
Diluted weighted average number of shares outstanding	44,837,955	34,017,665

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
June 30, 2011 and 2010  
(Stated in US Dollars)

	2011	2010
Operating Activities		
Net income (loss) for the year	\$ 895,811	\$ (2,329,567)
Items not involving cash:		
Depreciation - plant and equipment	272,105	264,101
Amortization - patent, trademark and technology rights	126,016	126,816
Stock-based compensation - investor relations	27,090	8,700
Stock-based compensation - wages	(331,176)	500,900
Change in fair value of derivative liability	(1,453,238)	927,000
Changes in non-cash working capital balances related to operations:		
Accounts receivable	52,273	77,680
Inventory	25,604	58,172
Prepaid expenses and deposits	4,501	(4,442)
Accounts payable and accrued liabilities	32,105	4,248
Customer deposits	19,844	-
	(329,065)	(366,392)
Net cash used in operating activities		
Cash Flows provided by Financing Activities		
Issuance of common shares, net of share issue costs	3,600	1,461,626
Repayments on long-term debt	(71,187)	(365,875)
Decrease in obligations under capital lease	(54,593)	(53,893)
Advances on bank loan facility	250,000	-
Repayment of bank loan facility	(318,277)	-
	(190,457)	1,041,858
Net cash provided by (used in) financing activities		
Cash Flows used in Investing Activities		
Acquisition of equipment	(74,857)	(23,068)
	(74,857)	(23,068)
Net cash used in investing activities		
Increase (decrease) in cash and cash equivalents during the year	(594,379)	652,398
Cash and cash equivalents, beginning of the year	863,121	210,723
	\$ 268,742	\$ 863,121
Cash and cash equivalents, end of the year		
Supplemental Cash Flow Information		
Cash paid for interest	\$ 49,534	\$ 79,921
	\$ -	\$ -
Cash paid for income taxes		

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
June 30, 2011 and 2010  
(Stated in US Dollars)

	Common Stock				
	Issued Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total
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	-	(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
Reclassification of derivative liability on cancellation of stock options	-	-	20,405	-	20,405
Stock-based compensation	-	-	514	-	514
Issued for exercise of stock options - at \$0.09	40,000	3,600	-	-	3,600
Transferred to additional paid in capital for the exercise of stock options	-	2,378	(2,378)	-	-
Net income for the year	-	-	-	895,811	895,811
Balance, June 30, 2011	44,454,926	15,463,675	1,030,593	(14,360,735)	2,133,533

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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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. At June 30, 2011, the Company had not yet achieved profitable operations, had an accumulated deficit of \$14,360,735 since its inception and had a working capital deficiency of \$701,934, which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. The Company expects to fund short-term cash flow requirements with remaining cash reserves and positive operating cash flow anticipated with increasing sales volume over the next fiscal year. 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, 2011 and June 30, 2010, 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, 2011 and 2010  
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Note 2 Significant Accounting Policies – (cont'd)

b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term term deposits, with original maturity dates of less than 90 days and/or with original maturity dates over 90 days but redeemable on demand without penalty. The Company places its cash with institutions of high-credit worthiness.

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  
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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 Income (Loss) per Share

Basic net income (loss) per common share is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding for the period. Diluted net income (loss) per common share includes both the weighted-average number of common shares outstanding for the period plus the potentially dilutive securities from stock options and warrants outstanding. The number of shares potentially issuable at June 30, 2011 and 2010 upon exercise or conversion totaled 18,930,000 and 19,330,000 respectively. Of the total, 15,000,000 warrants and Nil share purchase options (2010: 15,000,000 warrants and 4,330,000 share purchase options) were excluded from the calculation of diluted earnings per share because their effect is anti-dilutive.

j) Fair Value Measurements

The book value of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of those instruments. Based on borrowing rates currently available to the Company under similar terms, the book value of long term debt and capital lease obligations 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.

The Company had certain liabilities required to be recorded at fair value on a recurring basis in accordance with generally accepted accounting June 30, 2011 and 2010 were Level 3 liabilities.

As at June 30, 2011, 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 and issuance 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 June 31, 2011 and 2010 is as follows:

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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Note 2 Significant Accounting Policies – (cont'd)

j) Fair Value Measurements – (cont'd)

<u>Warrants</u>	Year ended	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Beginning Fair Value	\$ 2,010,000	\$ -
Issuance	-	1,083,000
Change in Fair Value	(1,453,238)	927,000
Ending Fair Value	<u>\$ 556,762</u>	<u>\$ 2,010,000</u>
<u>Non-employee options</u>	Year ended	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Beginning Fair Value	\$ 40,600	\$ -
Issuance	10,745	31,900
Transfers In	27,031	-
Transfers Out	(20,405)	-
Change in Fair Value	(38,815)	8,700
Ending Fair Value	<u>\$ 19,156</u>	<u>\$ 40,600</u>
Total Level 3 Liabilities	<u>\$ 575,918</u>	<u>\$ 2,050,600</u>

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, 2011 or June 30, 2010.

Currency Risk

The Company holds cash of \$276,225 (2010 \$858,156) in Canadian dollars exposing it to a foreign currency exchange risk. During the year ended June 30, 2011 the Company realized a foreign exchange gain of \$37,919 (2010: \$(30,615)) as a result of the Company holding cash in Canadian dollars.

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  
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Note 2 Significant Accounting Policies – (cont'd)

l) Revenue Recognition - (cont'd)

The Company also recognizes revenue on a “bill-and-hold” basis in accordance with the authoritative guidance. Under the Company’s “bill-and-hold” arrangements, at the request of the customer, finished inventory is segregated for future delivery at the customer’s discretion. Title and risk of loss of the inventory has passed to the customer upon transfer at which time, the Company receives payment from the customer and recognizes revenue thereon.

m) 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.

n) 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 binomial option pricing model to determine the fair value of all stock-based awards classified as liabilities and the Black-Scholes option pricing model to determine the fair value of stock option awards classified as equity. Option pricing models require the input of highly subjective assumptions, including expected price volatility. Changes in these assumptions could materially affect the fair value estimate.

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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Note 2 Significant Accounting Policies – (cont'd)

o) Derivative Liabilities

Free standing warrants and share purchase options are classified as liabilities and are 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 binomial pricing model.

p) Recent Accounting Pronouncements

In October 2009, the FASB issued Accounting Standards Update (“ASU”) No. 2009-13, *Multiple-Deliverable Revenue Arrangements*. The new standard changes the requirements for establishing separate units of accounting in a multiple element arrangement and requires the allocation of arrangement consideration to each deliverable based on the relative selling price. The selling price for each deliverable is based on vendor-specific objective evidence (“VSOE”) if available, third-party evidence if VSOE is not available, or estimated selling price if neither VSOE or third-party evidence is available. ASU 2009-13 is effective for revenue arrangements entered into in fiscal years beginning on or after June 15, 2010. The adoption of this standard did not have a material effect on the Company’s consolidated financial statements.

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 annual periods beginning after December 15, 2010 and interim periods within those fiscal years, 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 has adopted this guidance effective July 1, 2011 at which time the fair value of the employee share purchase options previously classified as a liability was reclassified to additional paid-in capital.

q) Comparative Figures

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

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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Note 3 Inventory

	2011		2010	
Raw Materials	\$	153,369	\$	179,105
Finished Goods		76,857		76,725
	\$	230,226	\$	255,830

Note 4 Property, Plant and Equipment

	2011		
	Cost	Accumulated Depreciation	Net
Manufacturing equipment	\$ 3,518,136	\$ 1,252,225	\$ 2,265,911
Equipment and furniture	33,194	32,768	426
Computer equipment	30,032	29,570	462
	3,581,362	1,314,563	2,266,799

	2011		
	Cost	Accumulated Depreciation	Net
Assets under capital lease			
Equipment	69,696	38,237	31,459
Land	54,498	-	54,498
Building	1,877,801	889,893	987,908
Railroad Spur	94,108	46,962	47,146
	2,096,103	975,092	1,121,011
	\$ 5,677,465	\$ 2,289,655	\$ 3,387,810

	2010		
	Cost	Accumulated Depreciation	Net
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
	3,507,921	1,134,726	2,373,195

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

	2010		
	Cost	Accumulated Depreciation	Net
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
	2,096,103	884,240	1,211,863
	\$ 5,604,024	\$ 2,018,966	\$ 3,585,058

During the year ended June 30, 2011, the Company recorded depreciation expense of \$272,105 (2010: \$264,101) 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, 2011 was \$90,852 (2010: \$90,852).

Note 5 Patent, Trademark and Technology Rights

	2011	2010
Trademark and technology rights - at cost	\$ 1,000,000	\$ 1,000,000
Patent - at cost	24,104	24,104
	\$ 1,024,104	\$ 1,024,104
Less: Accumulated amortization	(891,085)	(765,069)
Impairment provision	(113,746)	(113,746)
	\$ 19,273	\$ 145,289

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:

	2011	2010
Beginning Fair Value	\$ 2,010,000	\$ -
Issuance of warrant liability		\$ 1,083,000
Change in fair value	(1,453,238)	927,000
Ending Fair Value	\$ 556,762	\$ 2,010,000

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Note 6 Warrant Liability - (cont'd)

The Company used the binomial option pricing model to estimate the fair value of the warrants with the following assumptions:

	At June 30, 2011	At June 30, 2010	At issuance
Expected life (years)	0.72	1.69	2.00
Risk-free interest rate	0.19%	0.46%	0.92%
Expected volatility	146.29%	145.84%	145.84%
Expected dividend yield	0.00%	0.00%	0.00%

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.

Note 7 Long-term Debt

	2011	2010
Revolving bank loan facility in the amount of \$250,000 bearing interest at 6.75% 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 is due on September 1, 2012 with accrued interest paid monthly.	\$ 181,723	\$ 250,000
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.	234,398	305,585
	416,121	555,585
Less: Current portion	(76,412)	(71,225)
	<u>\$ 339,709</u>	<u>\$ 484,360</u>

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

2012	\$ 76,412
2013	339,709
	<u>\$ 416,121</u>

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Note 8 Obligation under Capital Leases

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

2012		\$ 73,621
2013		73,621
2014		73,621
2015		73,621
2016		36,812
Thereafter		-
		<u>331,296</u>
Less:	amount representing interest	<u>(41,478)</u>
		289,818
Less:	current portion	<u>(57,911)</u>
Long-term portion		<u>\$ 231,907</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, 2011 was \$16,996 (2010: \$22,161).

Note 9 Common Stock

a) Escrow:

At June 30, 2011, there are 48,922 (2010 – 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, 2011, 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.

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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, 2011 and 2010 and changes during the years ending on those dates is presented below:

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding, June 30, 2009	1,941,750	\$0.56	\$ -
Granted	4,040,000	\$0.12 CDN	-
Expired	(1,601,750)	\$0.65	-
Forfeited	(50,000)	\$0.45	-
Outstanding, June 30, 2010	<u>4,330,000</u>	\$0.12	<u>\$ 293,553</u>
Granted	390,000	\$0.14 CDN	-
Exercised	(40,000)	\$0.09	-
Expired	(250,000)	\$0.55	-
Forfeited	(500,000)	\$0.14 CDN	-
Outstanding, June 30, 2011	<u>3,930,000</u>	\$0.12 CDN	<u>\$ -</u>
Exercisable, June 30, 2011	<u>3,890,000</u>	\$0.12 CDN	
Exercisable, June 30, 2010	<u>3,920,000</u>	\$0.14	

The following summarizes information about share purchase options outstanding as at June 30, 2011:

Number	Exercise Price	Expiry Date	Remaining Contractual Life
3,540,000	\$0.12 CDN	March 18, 2012	0.72 years
350,000	\$0.15 CDN	October 29, 2012	1.33 years
40,000	\$0.064 CDN	June 10, 2013	1.95 years
<u>3,930,000</u>			

The weighted-average grant date fair value of options granted during the years 2011 and 2010 was \$0.10 and \$0.11 respectively.

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Note 9 Common Stock – (cont'd)

b) Commitments: - (cont'd)

Stock-based Compensation Plan – (cont'd)

Non-Employee Share Purchase Options

In accordance with the guidance of ASC 815-40-15, stock options granted to non-employees that are exercisable in Canadian dollars are required to be accounted for as derivative liabilities because they are considered not to be indexed to the Company's stock due to their exercise price being denominated in a currency other than the Company's US dollar functional currency.

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

	2011	2010
Fair value of non-employee options, at beginning of the year	\$ 40,600	\$ -
Fair value of non-employee options, at issuance	10,745	31,900
Fair value of non-employee options vesting during the year	27,031	-
Reclassification of cancelled non-employee stock options to additional paid in capital	(20,405)	-
Change in fair value of non-employee options for the period	(38,815)	8,700
Fair value of non-employee options at end of the year	<u>\$ 19,156</u>	<u>\$ 40,600</u>

The non-employee options are required to be re-valued 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 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:

	2011	2010
Fair value of employee options, at beginning of the year	\$ 469,000	\$ -
Fair value of employee options, at issuance	26,864	368,500
Change in fair value of employee options for the period	(330,425)	100,500
Fair value of employee options at end of the year	<u>\$ 165,439</u>	<u>\$ 469,000</u>

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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 using the following weighted average assumptions:

	2011	2010
Expected dividend yield	0.00%	0.00%
Expected volatility	151.61%	145.84%
Risk-free interest rate	0.35%	0.41%
Expected term in years	2.00	1.95

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

	2011	2010
Wages and management fees	\$ (331,176)	\$ 500,900
Investor relations	27,090	-
	<u>\$ (304,086)</u>	<u>\$ 500,900</u>

A summary of changes in the Company's unvested stock options for the years ended June 30, 2011 and 2010 is presented below:

	2011		2010	
	Number of	Weighted	Number of	Weighted
	Options	Average	Options	Average
		Grant Date		Grant Date
		Fair Value		Fair Value
Outstanding, beginning of year	410,000	\$0.13	102,500	\$0.09
Granted	390,000	\$0.10	4,040,000	\$0.11
Expired	(200,000)	\$0.13	(60,000)	\$0.09
Forfeited	-		(12,500)	\$0.09
Vested	<u>(560,000)</u>	\$0.12	<u>(3,660,000)</u>	\$0.11
Outstanding, end of year	<u>40,000</u>	\$0.08	<u>410,000</u>	\$0.13

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Note 9 Common Stock – (cont'd)

b) Commitments: - (cont'd)

Stock-based Compensation Plan – (cont'd)

Warrants

At June 30, 2011 and 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, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Testing services	\$ 30,962	\$ 35,901

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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Wages and management fees	\$ 186,793	\$ 181,064
Share-based compensation	(265,475)	413,000
	<u>\$ (78,682)</u>	<u>\$ 594,064</u>

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>2011</u>	<u>2010</u>
Net operating losses	\$ 1,885,000	\$ 1,566,000
Property, plant and equipment	(52,000)	(113,000)
Stock option deduction	-	45,000
Expenses not currently deductible	26,000	10,000
Valuation allowance	(1,859,000)	(1,508,000)
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

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Note 12 Income Taxes – (cont'd)

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

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Income tax benefit at statutory rate	\$ 246,000	\$ (676,000)
Foreign income taxed at foreign statutory rate	(43,000)	(35,000)
Expiry of losses		9,000
Change in fair value of derivative liability	(400,000)	271,000
Stock-based compensation	(82,000)	87,000
Effect of foreign exchange and other	(79,000)	(18,000)
Effect of reduction in tax rates	7,000	31,000
Increase (decrease) in valuation allowance	351,000	331,000
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, 2011 and June 30, 2010.

As at June 30, 2011, 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	\$ -	\$ 88,000	\$ 88,000
2015	-	174,000	174,000
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	-	188,000	188,000
2027	331,000	226,000	557,000
2028	848,000	191,000	1,039,000
2029	493,000	193,000	686,000
2030	819,000	280,000	1,099,000
2031	566,000	162,000	728,000
	<u>\$ 4,441,000</u>	<u>\$ 1,502,000</u>	<u>\$ 5,943,000</u>

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Note 12 Income Taxes – (cont'd)

*Uncertain Tax Positions*

The Company makes an assessment of its income tax positions for all years subject to examination based upon an evaluation of the facts, circumstances and information available at the reporting date. For all tax positions where there is a more than 50% likelihood that a tax benefit will be sustained by a tax authority with full knowledge of all relevant information, the Company fully recognizes the tax position taken. For income tax positions where there is a 50% or less likelihood the tax benefit would be sustained, no tax benefit is recognized in the financial statements.

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 2004.

At June 30, 2011, 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.

During the year ended June 30, 2011, two customers accounted for 98% of total revenues (each representing 72% and 26% respectively) (2010: two customers accounted for 87% of total revenues (each representing 71% and 16% respectively). The amounts receivable from each of these customers at June 30, 2011 is \$Nil and \$43,261 respectively (2010: \$15,444 and \$48,420 respectively). The loss of either of these customers or the curtailment of purchases by such customers could have material adverse effects on the Company's financial condition and results of operations.

Note 14 Interest and Other Income

Interest and other income in 2010 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.

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Note 15 Contingencies

In the ordinary course of business, the Company is subject to potential warranty claims. Accruals are made to offset potential claims where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, the Company does not believe that the ultimate outcome of these matters will have a material impact on its consolidated financial position.