

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**QUARTERLY REPORT**  
for the period ended December 31, 2006

**Management Discussion & Analysis**

**Date of Report – February 12, 2007**

**Description of Business**

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

**Discussion of Operations**

Barrier's financial statements are filed with both the SEC (USA) and SEDAR (Canada) and are disclosed in US dollars utilizing US generally accepted accounting principles. Barrier's filings with the SEC consist of quarterly reviewed financial statements on Form 10-QSB and annual audited financial statements on Form 10-KSB. Barrier continues to file the above financial statements with SEDAR in Canada.

**Sales** reported for the second quarter of fiscal 2007 were up to \$1,643,081 from the \$1,610,388 reported in the same period last year. Year-to-date sales are up from \$2,952,580 to \$3,627,773. While Barrier has become used to double digit growth in sales revenue over the last two years, maintaining growth of any amount is remarkable considering the temporary downturn in US housing starts. Gains in Blazeguard sales are being facilitated by a continued increase in market share in existing Blazeguard markets and by adding sales to new geographies. This gain in market share will help fuel significant growth in sales as the US building industry continues its recovery throughout 2007.

Gross profit has improved to \$326,680 from a three month total of \$323,271 in the previous year and up to \$752,326 from \$674,437 year-to-date. Gross margin, as a percentage of sales revenue in the three month period was 20% and 21% year-to-date. Total sales revenue was impacted by historically low sheathing (plywood and Oriented Strand Board) prices. Sheathing costs are basically a "pass through" commodity item for Blazeguard sales. Cyclicity in sheathing costs are expected and do not materially effect bottom line profits, but a downward trend in sheathing will have a direct impact on total sales revenue.

Sales, as measured by surface volume of product shipped for the quarter, were 2,251,800 sq.ft.: an increase of 24% from the 1,820,200 sq.ft. shipped the same period the previous year. Sales into the commercial modular business segment, accounted for 41% of the total volume shipped over the three month period. Barrier anticipates that this market will continue to provide an opportunity for sustained growth and will also provide the basis for the development of other markets, such as fire rated residential and non-modular roof deck applications, during fiscal 2007.

Florida continues to be the most significant market for Blazeguard sales into the multifamily residential roof market. Sales growth has been facilitated by continued gains in market share as more builders switch from chemically impregnated fire rated panels. Multifamily sales improved 24% quarter to quarter, to 1,327,400. Of this total, 884,000 sq ft was shipped to Florida. Blazeguard sales into southern California, which is another strong multifamily market recently penetrated by Barrier, improved to nearly 278,400 sq. ft. Sales into the California market have been facilitated by Bear Forest Products; a wholesale building products distributor operating out of Riverside, CA. Bear also has a yard near Phoenix, AZ and intends to begin to distribute Blazeguard from that facility in the current fiscal quarter.

In addition to the newly penetrated geographies of southern California and Arizona, Barrier is intent upon beginning multifamily sales into Texas as well. Sales representatives are being sought after to help continue sales growth momentum in southern California, Arizona, and Texas

**Cost of goods sold** in the three-month period ending December 31, 2006 increased to \$1,316,401 from \$1,287,117. This increase is directly related to the higher volume of production and shipments. Average direct costs per sq.ft. of production (including the substrate) was substantially lower (from .71 to .58) for the three-month period year to year.

The average cost of goods sold has remained relatively constant year to year. Barrier anticipates significant improvements in the average cost of both labor and materials as the new, highly automated production line continues to provide a higher percentage of product shipped. Efficiencies will continue to improve as labor becomes more experienced with the idiosyncrasies of the new system. Also, the need for additional “temporary” labor will decline as full time, permanent labor becomes more efficient. While the number of required workers on the new line will be similar to the old line, the designed production capacity of the new line will be more than twice that of the old line.

**Operating expenses** were higher in the three-month period reported. Operating expenses rose to \$129,997 from \$62,894. This included \$21,868 of R&D expenses which were incurred as new market applications continue to be explored and developed.

Amortization on plant and equipment increased from \$12,506 to \$76,879. The increase reflects the depreciation of the new manufacturing line equipment as it is now producing substantial volumes. The amortization of the world-wide Pyrotite technology (including patents, technical know-how, and trademarks) began when Barrier purchased it in 2004 and will continue at existing rates until it is fully depreciated (8 years).

**Administrative expenses** in the reported three-month period decreased to \$377,333 from \$447,858 for the same period last year. Administrative costs per sq. ft. declined to \$0.17 per sq. ft. from \$0.25 for the three month period. As volumes continue to increase, a further reduction in the average cost of administrative expense per sq.ft. produced is expected. Barrier expects the reduction in the average cost of administration to have a significant impact on bottom line performance in future reporting periods.

Barrier is required to report a line item entitled “stock-based compensation”. This figure is an estimate of the value of stock options awarded to management and key personnel as a portion of their total compensation package (see section: Critical Accounting Estimates below). Since options are typically granted with a redeemable stated value less than the current market value, a formula is used to charge the company the difference. While this reporting is a requirement, and a true reflection of value the company is granting to key personnel, it is a “non-cash” item that does not directly impact operational performance. Stock-based compensation decreased from \$166,393 to \$27,093 for the quarter ending December 31, 2006.

Insurance costs have increased due to the increase in sales volumes which led to additional coverage requirements. Three month insurance costs have risen to \$22,827 from \$11,745 the previous year.

Travel, promotion, and trade show expenses are slightly higher as a result of increased activity and the development of the mid-west and southern California territory. Wages and management fees for the three month period have grown to \$154,267 from \$93,253 reflecting the addition of professional staff including a new Financial Services Manager (Mr. Todd Lorsung).

Legal fees have increased to \$40,952 from \$19,702 for the quarter. This was due to patent fees associated with the process technology developed from the new manufacturing line, in addition to preparation work for potential licensing opportunities in Australia. Sales, marketing, and investor relations expenses are lower for the quarter ending December 31, 2006, in comparison to the prior year. Barrier will continue to expand upon its shareholder and customer communication programs to ensure the public is informed about business development and emerging opportunities.

**Other items** include income not directly related to business operations. Other items reported herein include \$9,627 in interest income and \$33,944 in foreign exchange loss for the three month period ending December 31, 2006.

#### Net income (loss)

A net loss of \$204,967 is being reported for the three month period ending December 31, 2006, whereas in the same period in 2005, a net loss of \$183,892 was reported. Net of non-cash items (amortization and stock-based compensation), the quarterly net loss is \$69,745 and the year-to-date net loss is \$49,789. As the utilization and streamlining of the new manufacturing line continues, the positive result will impact net income.

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

	Dec 31 2006	Sept 30 2006	June 30 2006	Mar 31 2006	Dec 31 2005	Sept 30 2005	June 30 2005	Mar 31 2005
Volume shipped (MSF)	2,251.8	2,691.8	2,267.0	2,155.4	1,820.2	1,651.4	1,305.9	1,361.1
Total Revenues (000\$)	1.643	1.985	1.826	1.825	1.611	1.342	1.069	1.196
Operating Income	(180.6)	(127.0)	(150.3)	1.7	(187.5)	46.1	(332.6)	(21.1)
Net income (loss)**	(204.9)	(106.8)	(144.5)	60.9	(183.9)	55.8	(213.0)	(11.3)
Per Share	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	(0.01)	(0.00)
Stock-Based Compensation	27.1	38.1	40.8	0.0	166.5	10.0	34.7	0.00
Net income less SBC*	(177.8)	(74.9)	(103.7)	60.9	(17.4)	65.8	(178.3)	(11.3)

\*SBC (Stock-Based Compensation)

\*\*During the period, the foreign exchange translation was reclassified. It was previously recorded on the Balance Sheet as a component of Other Comprehensive Income/Loss. It is now reflected on the Statement of Operations. This results in an increase in the net loss of \$27,761 for the quarter ending December 31, 2006 and a reduction of \$6,200 in the net loss as reported for the quarter ending September 30, 2006. Prior periods were not adjusted.

Sales volumes continue to increase in a significant way. Volume of product shipped in the three month period ended December 31, 2006 was 431,600 sq.ft. greater than in the three month period ending December 31, 2005: a year to year increase of 24%. Since Barrier's financial performance is ultimately driven by production volume and efficiency, this rate of sales volume growth is significant and will ultimately result in significant future profits.

## Selected Annual Information

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

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

**New product and market development** Barrier is investing time and financial resources in an effort to accelerate long-term growth. While these expenditures take away from near term profits, the long term result will be beneficial to attaining our goals. Initiatives continue to provide opportunities for sales expansion and growth.

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

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

Structural Insulative Panels (SIP’s) was a significant business for Blazeguard from 1996 – 1999. A non-uniform surface appearance of the coating applied by the existing production line, however, created insurmountable issues in marketing the product as an exposed interior wall surface. The new line will allow Barrier to more successfully produce products to an acceptable interior panel standard. Barrier anticipates a renewed interest in Blazeguard into the SIP’s market by mid year 2007.

Significant progress continues to be made in marketing Blazeguard enhanced Class C roof deck assemblies to modular building manufacturers all over the US. These portable and modular buildings are being used as temporary shelters and construction trailers in Louisiana and other areas impacted by hurricane Katrina. Barrier, and its partner in this development endeavor, MuleHide Products, Inc., believes that the growth of this business will continue to be strong throughout 2007 and beyond.

**Global licensing opportunities.** With the purchase of the world technology rights, Barrier is in a position to develop licensing arrangements. When interested parties inquire regarding licensing, Barrier responds with an information packet and begins an assessment of appropriateness of fit with our technology.

Any licensing agreements will be designed to protect the technology, prohibit competition, and provide for royalties to be paid to Barrier on an ongoing basis.

Product and technology licensing scenarios are being developed within Barrier and management is confident that licensing relationships or relationships leading to licensing contracts will be in existence in the near future.

**Financial position & financings.**

Barrier ended the period with a working capital surplus of \$753,230.

**Related Party Transactions**

During the three months ended December 31, 2006 the Company incurred wages and management fees of \$44,960 with directors of the Company and companies with common directors.

**Capitalization**

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

Issued as of December 31, 2006: 29,414,925 common shares at \$15,079,071

Issued as of February 12, 2007: 29,414,925 common shares at \$15,079,071

Options and warrants outstanding:

The following summarizes information about the stock options outstanding at December 31, 2006 reflected in US dollar currency:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
32,500	\$0.44	May 2, 2007
150,000	\$0.66	July 19, 2007
400,000	\$0.80	October 6, 2007
20,000	\$0.50	February 23, 2008
378,500	\$0.09	March 5, 2008
120,000	\$0.69	March 6, 2008
1,094,900	\$0.65	August 24, 2009
<u>250,000</u>	\$0.55	August 9, 2010
<u>2,445,900</u>		

At December 31, 2006, the following share purchase warrants were outstanding entitling the holder to purchase one common share for each warrant held as follows:

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

### **Critical Accounting Estimates**

#### **Stock-based Compensation Charge and Expense**

As described in Note 3 to the audited annual financial statements dated June 30, 2006, the Company records stock-based compensation expense in respect to the fair market value on newly issued stock options. This fair market value of the stock options is estimated at the date the stock options are granted using the Black-Scholes option-pricing model. The related stock-based compensation expense is recognized over the period in which the options vest. In addition, this is a non-cash compensation charge and the cash flow effects are realized only at the time of exercise.

#### **Internal Control and Financial Reporting Procedures**

The board of directors evaluates and maintains internal control procedures and financial reporting procedures to ensure the safeguarding of Barrier's assets as well as to ensure full, true, accurate and timely disclosure of Barrier's financial position for the quarterly period ended December 31, 2006, that would materially affect the accuracy of this financial report.

#### **Other Matters**

As at December 31, 2006, the Company does not have any off-balance sheet arrangements to report.

International Barrier Technology Inc. has received a preliminary liability and damage report from the New Jersey townhouse association in connection with its lawsuit commenced against its contractor, engineering consultant, property manager and the Company (the "Defendants"). The lawsuit involves alleged water damage in a 1996 roof replacement project that was allegedly caused by claimed Company product failure along with other alleged deficiencies. The Company first reported on the prospect of this litigation in December 2005. The townhouse association claims that as a result of defective product supplied, and negligent work performed by other named Defendants, the association has suffered damages of US\$5,506,409.46. Repairs have been limited to 14 of 174 townhouse units, where water damage has been noted. The total square footage affected to date has been over an area covering less than 10,000 square feet. The damages claimed include the costs of repairs made subsequent to the initial installation work, attorney and consultant fees, and the estimated anticipated future costs for roof repairs on units which have not previously required roof repairs nor have shown any sign of damage.

The Defendants, through their insurers, are in the process of engaging a qualified expert to consider the report and to prepare a response to refute it. The townhouse association's request for mediation with the Defendants has been declined by the Defendants at this juncture. The Company carries insurance to protect against such claims and has documented that any damage occurring to date was the result of insufficient ventilation and incorrect installation. The Company anticipates that the claim will have no material financial impact on the Company.

The lawsuit by the townhouse association is the first involving the Company in 17 years of product distribution in the United States. Over that time, millions of square feet of the Company's products have been successfully installed for roofing and other applications.

The Company will report further on this matter as developments occur.

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2006

(Stated in U.S. Dollars)

(Unaudited)

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

December 31, 2006 and June 30, 2006

(Stated in U.S. Dollars)

(Unaudited)

	December 31, <u>2006</u>	June 30, <u>2006</u>
<b><u>ASSETS</u></b>		
Current		
Cash and term deposits	\$ 595,213	\$ 897,111
Accounts receivable	251,422	473,100
Inventory	289,212	318,427
Prepaid expenses and deposits	<u>68,930</u>	<u>34,604</u>
	1,204,777	1,723,242
Plant and equipment	3,806,449	3,685,251
Trademark and technology rights	<u>701,183</u>	<u>763,683</u>
	<u>\$ 5,712,409</u>	<u>\$ 6,172,176</u>
<b><u>LIABILITIES</u></b>		
Current		
Accounts payable and accrued liabilities	\$ 381,907	\$ 542,314
Current portion of long-term debt	4,550	9,100
Current portion of obligation under capital leases	<u>65,090</u>	<u>62,569</u>
	451,547	613,983
Long-term debt	-	18,200
Obligation under capital leases	<u>496,248</u>	<u>539,982</u>
	<u>947,795</u>	<u>1,172,165</u>
<b><u>STOCKHOLDERS' EQUITY</u></b>		
Share capital		
Authorized:		
100,000,000 common shares without par value		
Issued:		
29,414,925 common shares (June 30, 2006: 29,389,925 common shares)	15,079,071	15,059,952
Additional capital – stock-based compensation	906,394	849,120
Other comprehensive loss	22,650	22,650
Deficit	<u>(11,243,501)</u>	<u>(10,931,711)</u>
	<u>4,764,614</u>	<u>5,000,011</u>
	<u>\$ 5,712,409</u>	<u>\$ 6,172,176</u>

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
for the three and six months ended December 31, 2006 and 2005  
(Stated in U.S. Dollars)  
(Unaudited)

	Three months ended December 31,		Six months ended December 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Sales	\$ 1,643,081	\$ 1,610,388	\$ 3,627,773	\$ 2,952,580
Cost of goods sold	<u>1,316,401</u>	<u>1,287,117</u>	<u>2,875,447</u>	<u>2,278,143</u>
Gross profit	<u>326,680</u>	<u>323,271</u>	<u>752,326</u>	<u>674,437</u>
Operating expenses				
Research and development	21,868	19,139	140,938	31,332
Amortization – plant and equipment	76,879	12,506	134,329	27,402
Amortization – trademark and technology costs	<u>31,250</u>	<u>31,249</u>	<u>62,500</u>	<u>62,500</u>
	<u>129,997</u>	<u>62,894</u>	<u>337,767</u>	<u>121,234</u>
Administrative expenses				
Accounting and audit fees	28,452	28,791	53,639	30,471
Consulting fees	759	4,570	2,444	6,820
Filing fees	11,115	7,389	11,311	9,169
Insurance	22,827	11,745	55,035	17,893
Interest and bank charges	70	135	110	355
Interest on long-term obligations	18,344	7,172	26,157	12,644
Legal fees	40,952	19,702	71,855	28,040
Office and miscellaneous	16,373	22,932	41,141	29,618
Sales, marketing, and investor relations	36,066	65,885	57,827	162,329
Stock-based compensation – Note 2	27,093	166,393	65,172	176,569
Telephone	2,889	3,029	6,221	6,555
Transfer agent fees	5,854	5,652	7,072	8,144
Travel, promotion, trade shows	12,272	11,210	30,434	20,710
Wages and management fees – Note 3	<u>154,267</u>	<u>93,253</u>	<u>293,780</u>	<u>185,281</u>
	<u>377,333</u>	<u>447,858</u>	<u>722,198</u>	<u>694,598</u>
Loss from operations	<u>(180,650)</u>	<u>(187,481)</u>	<u>(307,639)</u>	<u>(141,395)</u>

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SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
for the three and six months ended December 31, 2006 and 2005  
(Stated in U.S. Dollars)  
(Unaudited)

Continued

	Three months ended December 31,		Six months ended December 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Loss from operations	\$ (180,650)	\$ (187,481)	\$ (307,639)	\$ (141,395)
Other items:				
Foreign exchange loss	(33,944)	(1,536)	(27,761)	(1,536)
Other income	<u>9,627</u>	<u>5,125</u>	<u>23,610</u>	<u>14,819</u>
	<u>(24,317)</u>	<u>3,589</u>	<u>(4,151)</u>	<u>13,283</u>
Net loss for the period	(204,967)	(183,892)	(311,790)	(128,112)
Deficit, beginning of the period	<u>(11,038,534)</u>	<u>(10,664,207)</u>	<u>(10,931,711)</u>	<u>(10,719,987)</u>
Deficit, end of the period	<u>\$ (11,243,501)</u>	<u>\$ (10,848,099)</u>	<u>\$ (11,243,501)</u>	<u>\$ (10,848,099)</u>
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>
Weighted average number of shares outstanding	<u>29,414,925</u>	<u>28,831,445</u>	<u>29,412,208</u>	<u>28,336,618</u>

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the six months ended December 31, 2006 and 2005  
(Stated in U.S. Dollars)  
(Unaudited)

	Six months ended December 31,	
	<u>2006</u>	<u>2005</u>
Operating Activities		
Net loss for the period	\$ (311,790)	\$ (128,112)
Items not involving cash:		
Amortization – plant and equipment	134,329	27,402
– trademark and technology costs	62,500	62,500
Stock-based compensation	65,172	176,569
Changes in non-cash working capital items related to operations		
Accounts receivable	221,678	(81,029)
Inventory	29,215	102,072
Prepaid expenses	(34,326)	(50,632)
Accounts payable	<u>(160,407)</u>	<u>80,196</u>
Cash provided by operations	<u>6,371</u>	<u>188,966</u>
Investing Activity		
Acquisition of plant and equipment	<u>(255,527)</u>	<u>(1,188,980)</u>
Financing Activities		
Long-term debt	(22,750)	(15,922)
Capital lease obligations	(41,213)	(21,507)
Common shares issued for cash	<u>11,221</u>	<u>871,005</u>
Cash provided by (used in) financing activities	<u>(52,742)</u>	<u>833,576</u>
Effect of exchange rate changes on cash	<u>-</u>	<u>36,053</u>
Change in cash during period	(301,898)	(130,385)
Cash and term deposits, beginning of the period	<u>897,111</u>	<u>1,275,944</u>
Cash and term deposits, end of the period	<u>\$ 595,213</u>	<u>\$ 1,145,559</u>
Supplementary cash flow information:		
Cash paid for:		
Interest	<u>\$ 26,157</u>	<u>\$ 5,472</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**INTERIM CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**  
for the period ended December 31, 2006  
(Stated in U.S. Dollars)

	Common Stock		Additional Paid-in Capital	Other Comprehensive Loss	Deficit	Total
	Issued Shares	Amount				
Balance, June 30, 2005	27,645,325	\$ 13,898,740	\$ 728,710	\$ (43,047)	\$ (10,719,987)	\$ 3,864,416
Issued for cash pursuant to the exercise of share purchase warrants						
– at \$0.60	217,000	130,200	-	-	-	130,200
– at \$0.61	200,000	122,000	-	-	-	122,000
– at \$0.62	165,000	102,300	-	-	-	102,300
– at \$0.63	320,000	201,600	-	-	-	201,600
– at \$0.64	575,000	368,000	-	-	-	368,000
Issued for cash pursuant to the exercise of share purchase options						
– at \$0.09	50,000	4,500	-	-	-	4,500
– at \$0.44	52,500	23,100	-	-	-	23,100
– at \$0.66	55,100	36,615	-	-	-	36,615
– at \$0.69	110,000	75,900	-	-	-	75,900
Stock-based compensation	-	-	217,407	-	-	217,407
Reclassification of stock-based compensation charges upon exercise of foreign currency translation adjustment	-	96,997	(96,997)	65,697	-	65,697
Net loss for the year	-	-	-	-	(211,724)	(211,724)
Balance, June 30, 2006	29,389,925	15,059,952	849,120	22,650	(10,931,711)	5,000,011
Issued for cash pursuant to the exercise of share purchase options						
– at \$0.45	25,000	11,221	-	-	-	11,221
Amount reclassified from contributed surplus upon exercise of stock options	-	7,898	(7,898)	-	-	-
Stock-based compensation	-	-	65,172	-	-	65,172
Net loss for the period	-	-	-	-	(311,790)	(311,790)
Balance, December 31, 2006	<u>29,414,925</u>	<u>\$ 15,079,071</u>	<u>\$ 906,394</u>	<u>\$ 22,650</u>	<u>\$ (11,243,501)</u>	<u>\$ 4,764,614</u>

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2006  
(Stated in U.S. Dollars)  
(Unaudited)

Note 1 Interim Reporting

While the information presented in the accompanying six months to December 31, 2006 financial statements is unaudited, it includes all adjustments which are, in the opinion of management necessary to present fairly the financial position, results of operations and cash flows for the interim period presented in accordance with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations and financial position have been included and all such adjustments are of a normal recurring nature. It is suggested that these interim unaudited financial statements be read in conjunction with the Company's audited financial statements for the year ended June 30, 2006.

Operating results for the six months ended December 31, 2006 are not necessarily indicative of the results that can be expected for the year ending June 30, 2007.

Note 2 Share Capital

Escrow:

At December 31, 2006, there were 48,922 shares held in escrow by the Company's transfer agent. The release of these shares is subject to the direction or determination of the relevant regulatory bodies.

Commitments:

Stock-based Compensation Plan

At December 31, 2006, the Company has granted directors, officers and consultants the option to purchase 2,445,900 common shares of the Company.

A summary of the status of company's stock option plan for the six months ended December 31, 2006 is presented below:

	<u>Shares</u>	<u>Price</u>
ending, June 30, 2006	1,220,900	\$0.60
sed	25,000)	\$0.45
d	<u>150,000</u>	<u>\$0.55</u>
ending, December 31, 2006	<u>1,445,900</u>	<u>\$0.57</u>
sable, December 31, 2006	<u>1,255,900</u>	

Note 2 Share Capital – (cont'd)

Commitments: – (cont'd)

Stock-based Compensation Plan – (cont'd)

The following summarizes information about the stock options outstanding at December 31, 2006:

<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
32,500	\$0.44	May 2, 2007
150,000	\$0.66	July 19, 2007
400,000	\$0.80	October 6, 2007
20,000	\$0.50	February 23, 2008
378,500	\$0.09	March 5, 2008
120,000	\$0.69	March 6, 2008
1,094,900	\$0.65	August 24, 2009
<u>250,000</u>	\$0.69	August 9, 2010
<u>2,445,900</u>		

During the six months ended December 31, 2006, a compensation charge associated with the grant of stock options in the amount of \$65,172 (2005: \$176,569) was recognized in the financial statements.

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

	Six months ended December 31,	
	<u>2006</u>	<u>2005</u>
Expected dividend yield	0.0%	0.0%
Expected volatility	70.48%	85%
Risk-free interest rate	4.50%	2.00%
Expected terms in years	2 years	5 years

Note 2 Share Capital – (cont'd)

Commitments: – (cont'd)

Warrants

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

<u>Number of Shares</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,890,000	\$0.64	March 22, 2007
<u>1,253,000</u>	\$0.92	August 20, 2008
<u><u>3,143,000</u></u>		

Note 3 Related Party Transactions

The Company was charged the following by directors of the Company or private companies with common directors during the three and six months ended December 31, 2006 and 2005:

	Three months ended December 31,		Six months ended December 31,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Wages and management fees	<u>\$ 44,960</u>	<u>\$ 31,929</u>	<u>\$ 84,164</u>	<u>\$ 67,917</u>

Note 4 Contingent Liability

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

Note 5 Canadian and United States Generally Accepted Accounting Principles

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which do not differ with those principles and practices that the Company would have followed had its financial statements been prepared in accordance with accounting principles generally accepted in Canada.