



**British Columbia  
Securities Commission**

**QUARTERLY AND YEAR END REPORT  
BC FORM 51-901F (previously Form 61)**

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INCORPORATED AS PART OF:

Schedule A

Schedule B  
(place X in appropriate category)

**ISSUER DETAILS**

NAME OF ISSUER	FOR QUARTER ENDED	DATE OF REPORT YY/MM/DD
<b>International Barrier Technology Inc.</b>	<b>June 30, 2002</b>	<b>02/11/13</b>

ISSUER'S ADDRESS **c/o 750 West Pender Street, Suite 604**

CITY	PROVINCE	POSTAL CODE	ISSUER FAX NO.	ISSUER TELEPHONE NO.
<b>Vancouver</b>	<b>BC</b>	<b>V6C 2T7</b>	<b>604-689-9773</b>	<b>1-800-638-4570</b>

CONTACT PERSON	CONTACT'S POSITION	CONTACT TELEPHONE NO.
<b>Michael Huddy</b>	<b>President</b>	<b>1-800-638-4570</b>

CONTACT E-MAIL ADDRESS	WEB SITE ADDRESS
<b>info@intlbarrier.com</b>	<b>N/A</b>

**CERTIFICATE**

The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.

<b>"Victor Yates"</b>	<b>VICTOR YATES</b>	<b>02/11/13</b>
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED YY/MM/DD

<b>"David Corcoran"</b>	<b>DAVID CORCORAN</b>	<b>02/11/13</b>
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED YY/MM/DD

(Electronic signatures should be entered in "quotations")

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2002 and 2001  
(Stated in Canadian Dollars)

## AUDITORS' REPORT

To the Shareholders,  
International Barrier Technology Inc.

We have audited the consolidated balance sheets of International Barrier Technology Inc. as at June 30, 2002 and 2001 and the consolidated statements of loss, deficit and cash flows for the years ended June 30, 2002, 2001 and 2000. 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 generally accepted auditing standards in Canada and the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2002 and 2001 and the results of its operations and its cash flows for the years ended June 30, 2002, 2001 and 2000 in accordance with generally accepted accounting principles in Canada. As required by the British Columbia Act, we report that, in our opinion, these principles have been applied on a consistent basis.

Vancouver, Canada  
October 16, 2002

"AMISANO HANSON"  
Chartered Accountants

### COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA – U.S. REPORTING CONFLICT

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern. The accompanying consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes the realization of assets and discharge of liabilities in the normal course of business. As discussed in Note 1 to the accompanying financial statements and in respect of the Company's working capital deficiency and continuing losses from operations, substantial doubt about the Company's ability to continue as a going concern exists. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our report to the shareholders dated October 16, 2002 is expressed in accordance with Canadian reporting which do not permit a reference to such events and conditions in the auditor's report when these are adequately disclosed in the consolidated financial statements.

Vancouver, Canada  
October 16, 2002

"AMISANO HANSON"  
Chartered Accountants

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**CONSOLIDATED BALANCE SHEETS**  
as at June 30, 2002 and 2001  
(Stated in Canadian Dollars)

	<u>ASSETS</u>	(Restated – Note 15) <u>2001</u>
Current	<u>2002</u>	
Accounts receivable	\$ 125,529	\$ 164,133
Inventory – Note 3	84,658	98,408
Prepaid expenses and deposits	9,127	1,127
	<hr/>	<hr/>
	219,314	263,668
Capital assets – Note 4	990,676	1,134,670
License fee and technology – Note 5	1	1
	<hr/>	<hr/>
	\$ 1,209,991	\$ 1,398,339
	<hr/> <hr/>	<hr/> <hr/>
	<u>LIABILITIES</u>	
Current		
Bank indebtedness – Note 6	\$ 69,358	\$ 127,139
Accounts payable and accrued liabilities – Note 11	468,015	381,295
Unearned income	8,942	12,744
Due to related parties – Note 11	217,256	164,275
Current portion of long-term debts – Note 7	44,048	71,260
Current portion of obligation under capital leases – Note 8	115,610	70,498
	<hr/>	<hr/>
	923,229	827,211
Long-term debts – Note 7	161,330	148,822
Obligation under capital leases – Note 8	1,000,174	1,040,007
	<hr/>	<hr/>
	2,084,733	2,016,040
	<hr/> <hr/>	<hr/> <hr/>
	<u>SHAREHOLDERS' DEFICIENCY</u>	
Share capital – Note 9	11,029,276	10,969,276
Deficit	( 11,904,018)	( 11,586,977)
	<hr/>	<hr/>
	( 874,742)	( 617,701)
	<hr/>	<hr/>
	\$ 1,209,991	\$ 1,398,339
	<hr/> <hr/>	<hr/> <hr/>

Nature and Continuance of Operations – Note 1  
Commitments – Notes 7, 8, 9 and 14

APPROVED BY THE DIRECTORS:

*“David Corcoran”*

\_\_\_\_\_, Director

DAVID CORCORAN

*“Victor Yates”*

\_\_\_\_\_, Director

VICTOR YATES

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**CONSOLIDATED STATEMENTS OF LOSS**  
for the years ended June 30, 2002, 2001 and 2000  
(Stated in Canadian Dollars)

	<u>2002</u>	(Restated – Note 15) <u>2001</u>	(Restated – Note 15) <u>2000</u>
Sales	\$ 1,860,167	\$ 1,495,608	\$ 1,713,399
Cost of sales	( 1,421,028)	( 1,055,351)	( 1,206,853)
Gross margin	<u>439,139</u>	<u>440,257</u>	<u>506,546</u>
Operating Expenses			
Rent (recovery)	( 1,763)	2,137	1,992
Research and development – Note 10	36,082	84,493	84,779
License fee expense – Note 14	78,385	75,895	73,655
	<u>112,704</u>	<u>162,525</u>	<u>160,426</u>
General and Administrative Expenses			
Accounting and audit fees	28,705	16,301	18,440
Consulting fees	786	-	8,234
Filing fees	16,691	23,435	5,408
Foreign exchange (gain) loss	( 11,276)	49,798	21,903
Insurance	27,025	25,527	26,755
Interest and bank charges – Note 11	42,463	36,588	25,828
Interest on long-term debt – Note 8	80,951	81,698	76,202
Investor relations	-	28,890	16,050
Legal fees	4,534	9,721	15,154
Office and miscellaneous	54,881	50,721	52,782
Telephone	7,355	8,531	9,488
Transfer agent fees	3,646	1,639	6,483
Travel, promotion and trade shows	32,326	46,140	32,263
Wages and management fees – Note 11	179,664	182,605	184,945
	<u>467,751</u>	<u>561,594</u>	<u>499,935</u>
Loss before amortization	( 141,316)	( 283,862)	( 153,815)
Amortization – Note 4	( 175,725)	( 170,117)	( 145,001)
Net loss for the year	<u>\$ ( 317,041)</u>	<u>\$ ( 453,979)</u>	<u>\$ ( 298,816)</u>
Basic and diluted loss per share	<u>\$ ( 0.03)</u>	<u>\$ ( 0.04)</u>	<u>\$ ( 0.04)</u>
Weighted average number of shares outstanding	<u>12,588,355</u>	<u>11,052,255</u>	<u>8,378,683</u>

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**CONSOLIDATED STATEMENTS OF DEFICIT**  
for the years ended June 30, 2002, 2001 and 2000  
(Stated in Canadian Dollars)

	<u>2002</u>	(Restated – Note 15) <u>2001</u>	(Restated – Note 15) <u>2000</u>
Deficit, beginning of the year, as previously stated	\$ ( 11,475,260)	\$ ( 11,046,388)	\$ ( 10,755,750)
Prior period restatement – Note 15	<u>( 111,717)</u>	<u>( 86,610)</u>	<u>( 78,432)</u>
Deficit, beginning of the year, restated	( 11,586,977)	( 11,132,998)	( 10,834,182)
Net loss for the year	<u>( 317,041)</u>	<u>( 453,979)</u>	<u>( 298,816)</u>
Deficit, end of the year	<u><u>\$ ( 11,904,018)</u></u>	<u><u>\$ ( 11,586,977)</u></u>	<u><u>\$ ( 11,132,998)</u></u>

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the years ended June 30, 2002, 2001 and 2000  
(Stated in Canadian Dollars)

	<u>2002</u>	(Restated – Note 15) <u>2001</u>	(Restated – Note 15) <u>2000</u>
<b>Operating Activities</b>			
Net loss for the year	\$ ( 317,041)	\$ ( 453,979)	\$ ( 298,816)
Item not involving cash:			
Amortization	175,725	170,117	145,001
	<u>( 141,316)</u>	<u>( 283,862)</u>	<u>( 153,815)</u>
<b>Changes in non-cash working capital balances related to operations:</b>			
Accounts receivable	38,604	( 86,382)	( 49,265)
Inventory	13,750	( 6,868)	( 22,234)
Prepaid expenses and deposits	( 8,000)	2,290	( 3)
Accounts payable and accrued liabilities	86,720	91,434	204,441
Due to related parties	52,981	31,295	( 57,638)
	<u>42,739</u>	<u>( 252,093)</u>	<u>( 78,514)</u>
<b>Investing Activity</b>			
Purchase of capital assets	-	-	( 262,114)
<b>Financing Activities</b>			
Decrease in unearned income	( 3,802)	( 24,481)	( 7,810)
Increase (decrease) in long-term debts	( 14,704)	( 41,105)	63,154
Increase (decrease) in capital lease obligations	( 26,452)	3,604	( 48,823)
Common shares issued for cash	60,000	235,842	294,213
Increase (decrease) in bank indebtedness	( 57,781)	78,233	39,894
	<u>( 42,739)</u>	<u>252,093</u>	<u>340,628</u>
Change in cash during the year	-	-	-
Cash, beginning of the year	-	-	-
Cash, end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Supplementary Cash Flow Information</b>			
Cash paid for:			
Interest	\$ 100,764	\$ 97,639	\$ 90,949
Income taxes	\$ -	\$ -	\$ -

Non-cash Transactions – Note 12

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**CONSOLIDATED STATEMENT OF SHAREHOLDERS' DEFICIENCY**  
for the years ended June 30, 2002, 2001 and 2000  
(Stated in Canadian Dollars)

	Common Stock		(Restated – Note 15)	<u>Total</u>
	<u>Issued Shares</u>	<u>Amount</u>	<u>Deficit</u>	
Balance, June 30, 1999	6,008,925	\$ 10,070,593	\$ (10,834,182)	\$ ( 763,589)
Issue of shares for cash pursuant to a private placement – at \$0.15	2,000,000	300,000	-	300,000
Less: legal fees	-	( 5,787)	-	( 5,787)
Issue of shares pursuant to the conversion of promissory notes payable – at \$0.20	679,518	135,904	-	135,904
Issue of shares pursuant to debt settlements – at \$0.15	1,551,495	232,724	-	232,724
Net loss for the year	-	-	( 298,816)	( 298,816)
Balance, June 30, 2000	10,239,938	10,733,434	(11,132,998)	( 399,564)
Issue of shares for cash pursuant to the exercise of warrants – at \$0.10	1,443,417	144,342	-	144,342
Issue of shares for cash pursuant to the exercise of options – at \$0.10	735,000	73,500	-	73,500
– at \$0.15	120,000	18,000	-	18,000
Net loss for the year	-	-	( 453,979)	( 453,979)
Balance, June 30, 2001	12,538,355	10,969,276	(11,586,977)	( 617,701)
Issue of shares for cash pursuant to the exercise of options – at \$0.10	600,000	60,000	-	60,000
Net loss for the year	-	-	( 317,041)	( 317,041)
Balance, June 30, 2002	<u>13,138,355</u>	<u>\$ 11,029,276</u>	<u>\$ (11,904,018)</u>	<u>\$ ( 874,742)</u>

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
June 30, 2002 and 2001  
(Stated in Canadian Dollars)

Note 1 Nature and Continuance of Operations

The Company was incorporated under the British Columbia Company Act and is publicly traded on the TSX Venture Exchange.

The Company's principal business activity is the manufacture and sale of fire-rated building materials in the United States of America.

These consolidated financial statements have been prepared on a going concern basis. The Company has a working capital deficiency of \$703,915 as at June 30, 2002 and has accumulated \$11,904,018 of losses since inception. The Company's ability to continue as a going concern is dependent upon the ability of the Company to generate profitable operations in the future and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

Note 2 Summary of Accounting Policies

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada and are stated in Canadian dollars. Except as disclosed in Note 17, these financial statements conform in all material respects with GAAP in the United States of America. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. Actual results could differ from these estimates.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and 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 British Columbia company and Barrier Technology Corporation, a US company. All inter-company transactions and balances have been eliminated.

(b) Inventory

Inventory is valued by management at the lower of average cost and net realizable value.

Note 2 Significant Accounting Policies – (cont'd)

(c) Capital Assets and Amortization

Capital assets are recorded at cost. Amortization is provided using the following methods and rates:

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

(d) Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payment 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.

(e) Foreign Currency Translation

Monetary assets and liabilities denominated in United States dollars are translated into Canadian dollars at the exchange rate prevailing at the end of the year. Non-monetary assets and liabilities and revenues and expenses are translated at the exchange rate prevailing at the respective transaction dates. Translation gains and losses are recognized in the current year.

(f) Research and Development

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

(g) Basic and Diluted Loss Per Share

Loss per share amounts have been calculated and presented in accordance with the new recommendations of the Canadian Institute of Chartered Accountants. The new standard has been applied on a retroactive basis and had no impact on the amounts previously reported.

Note 2      Significant Accounting Policies – (cont'd)

(g) Basic and Diluted Loss Per Share – (cont'd)

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

(h) Fair Value of Financial Instruments

The Company's financial instruments consist of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, due to related parties, long-term debt and obligation under capital leases. The fair values of these financial instruments approximate their carrying values. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

(i) Unearned Income

Unearned income represents a prepayment in respect to a contract for future sales. Revenue is recognized on this prepayment at a rate of 3% of sales to the customer.

(j) Stock-based Compensation

The Company has a share purchase option plan which is described in Note 9. No compensation expense is recognised for this plan when shares or share purchase options are issued to employees or directors. Any consideration paid by employees or directors on exercise of share purchase options or purchase of shares is credited to share capital. If shares or share purchase options are repurchased from employees or directors, the excess of the consideration paid over the carrying amounts of the shares or share purchase options cancelled is charged to deficit.

Note 2 Significant Accounting Policies – (cont'd)

(k) Revenue Recognition

(i) Building Supplies

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

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

(ii) License Fees

License fees revenue is recognized when the licensor records the sale of products from IPOSB technology.

(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. Future income tax assets and liabilities are recognized in the current year for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using tax rates and laws expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in operations in the year of change.

Note 3 Inventory

	<u>2002</u>	<u>2001</u>
Raw materials	\$ 73,683	\$ 38,648
Finished goods	10,975	59,760
	<hr/>	<hr/>
	\$ 84,658	\$ 98,408
	<hr/>	<hr/>

International Barrier Technology Inc.  
Notes to the Consolidated Financial Statements  
June 30, 2002 and 2001 – Page 5  
(Stated in Canadian Dollars)

Note 4 Capital Assets

	2002			2001
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
Manufacturing equipment	\$ 539,226	\$ 510,207	\$ 29,019	\$ 136,864
Equipment and furniture	14,064	11,543	2,521	3,151
Computer equipment	18,867	17,742	1,125	1,607
Railway spur	132,449	23,257	109,192	113,742
	704,606	562,749	141,857	255,364
Assets under capital lease				
Equipment	43,190	14,854	28,336	3,689
Land	74,434	-	74,434	74,434
Building	1,102,673	356,624	746,049	801,183
	\$ 1,924,903	\$ 934,227	\$ 990,676	\$ 1,134,670

Amortization of assets under capital leases included in amortization expense for the year ended June 30, 2002 is \$62,218 (2001: \$56,057; 2000: \$56,355).

Note 5 License Fee and Technology - Note 14

	<u>2002</u>	<u>2001</u>
Cost	\$ 794,961	\$ 794,961
Less: Accumulated Amortization	( 234,895)	( 234,895)
Write-off - terminated License Agreement	( 560,065)	( 560,065)
	\$ 1	\$ 1

Pursuant to a revised License Agreement dated January 1, 1996 with Pyrotite Corporation (“Licensor”), the Company was granted the rights to use certain Licensor patents, trademarks and know-how to manufacture and sell certain Pyrotite products and substances in the territory of the USA. This agreement expires January 1, 2015.

In a previous year, the Company wrote-off its license fees, in the amount of \$560,065, directly associated with the purchase of the rights to manufacture fire retardant application products in the USA, acquired pursuant to a terminated License Agreement dated March 27, 1992.

International Barrier Technology Inc.  
Notes to the Consolidated Financial Statements  
June 30, 2002 and 2001 – Page 6  
(Stated in Canadian Dollars)

Note 6 Bank Indebtedness

	<u>2002</u>	<u>2001</u>
Current account overdraft	\$ 38,807	\$ 37,070
Operating loan	30,551	90,069
	<u>\$ 69,358</u>	<u>\$ 127,139</u>

The operating loan payable in US dollars (US\$20,150) bears interest at 10% per annum, is secured by accounts receivable and is due on demand.

Note 7 Long-term Debts

	<u>2002</u>	<u>2001</u>
Loan payable in US dollars (US\$9,747) is repayable in monthly amounts of US\$1,063 including interest at 10.5% per annum and is secured by a floating charge over inventory and capital assets, due March 3, 2003	\$ 14,779	\$ 31,722
Loan payable in US dollars (US\$18,308) is secured by a director's guarantee and is repayable in monthly amounts of US\$487 including interest at 10.5% per annum, due April 1, 2006	27,759	-
Promissory note payable in US dollars (US\$61,900) is secured by capital assets and is repayable in monthly amounts of US\$833 including interest at 6% per annum and beginning April 1, 2004 in three consecutive monthly payments of US\$16,496	93,853	105,128
Loan payable in US dollars (US\$45,500) is non-interest bearing, repayable in quarterly amounts of US\$2,275 and is secured by a lien on the railway spur, due January 10, 2007	68,987	83,232
	<u>205,378</u>	<u>220,082</u>
Less: current portion	( 44,048)	( 71,260)
	<u>\$ 161,330</u>	<u>\$ 148,822</u>

International Barrier Technology Inc.  
Notes to the Consolidated Financial Statements  
June 30, 2002 and 2001 – Page 7  
(Stated in Canadian Dollars)

Note 7 Long-term Debts – (cont'd)

Principal payments for the next five years are as follows:

2003	\$	44,048
2004		104,690
2005		21,055
2006		21,788
2007		13,797
	\$	<u>205,378</u>

Note 8 Obligation Under Capital Leases

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

2003	\$	178,659
2004		121,812
2005		121,812
2006		111,625
2007		111,625
Thereafter		948,823
		<u>1,594,356</u>
Less: amount representing interest	(	478,572)
		<u>1,115,784</u>
Less: current portion	(	115,610)
		<u>\$ 1,000,174</u>

The capital leases bear interest at various rates from 6% to 13.5%.

Interest on capital leases included in interest on long-term debt for the year ended June 30, 2002 is \$69,346 (2001: \$66,322; 2000: \$67,297).

Note 9 Share Capital

a) Authorized:

100,000,000 common shares without par value

b) Escrow:

At June 30, 2002, 173,452 shares are 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 authorities.

c) Commitments:

Stock-based Compensation Plan

At June 30, 2002, the Company has granted the directors the option to purchase 1,310,000 common shares of the Company. The options are granted with an exercise price equal to the market price of the Company's shares on the date of the grants.

A summary of the status of company's share purchase option plan as of June 30, 2002 and 2001 and changes during the years ending on those dates is presented below:

	2002		2001	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding and exercisable at beginning of the year	1,240,000	\$0.10	1,015,000	\$0.26
Granted	830,000	\$0.10	1,080,000	\$0.10
Expired	( 160,000)	\$0.125	-	-
Exercised	( 600,000)	\$0.10	( 855,000)	\$0.11
Options outstanding and exercisable at end of the year	1,310,000	\$0.10	1,240,000	\$0.10

The following summarizes information about share purchase options outstanding as at June 30, 2002:

Number	Exercise Price	Expiry Date
480,000	\$0.10	February 28, 2003
830,000	\$0.10	June 5, 2007
1,310,000		

Note 10 Research and Development

Research and development expense consists of the following for the years ended June 30, 2002, 2001 and 2000:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Salaries	\$ 21,707	\$ 58,286	\$ 62,476
Testing services	14,375	28,207	22,303
	<u>36,082</u>	<u>84,493</u>	<u>84,779</u>

Note 11 Related Party Transactions

The Company was charged the following by directors or private companies with common directors during the years ended June 30, 2002, 2001 and 2000:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Interest and bank charges	\$ 21,512	\$ 19,943	\$ 9,006
Wages and management fees	177,093	172,800	168,579
	<u>198,605</u>	<u>192,743</u>	<u>177,585</u>

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties and are on terms and conditions similar to non-related entities.

Included in accounts payable and accrued liabilities is \$62,097 (2001: \$52,910) owing to directors of the Company.

The amount due to related parties of \$217,256 (2001: \$164,275) consists of amounts due to directors or private companies with common directors. These amounts are unsecured, have no specific terms of repayment and bear interest at 10% per annum.

Note 12 Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows. During the years ended June 30, 2002 and 2000, the following transactions were excluded from the statements of cash flows:

June 30, 2002

- the Company acquired a capital asset with a cost of \$31,731 by way of a capital lease.

Note 12 Non-cash Transactions – (cont'd)

June 30, 2000

- the Company issued 679,518 common shares at \$0.20 per share pursuant to agreements to convert promissory notes payable totalling \$135,904; and
- the Company issued 1,551,495 common shares at \$0.15 per share to settle debts totalling \$232,724.

Note 13 Income Taxes

The Company has accumulated non-capital losses in Canada totalling \$1,439,962 which expire in 2009 and non-capital losses in the United States totalling \$786,065 which expire in 2022. In addition, the Company has accumulated Scientific Research and Experimental Development Expenses in Canada of \$1,087,818 which may be carried forward indefinitely to reduce taxable income in future years. The potential future income tax benefit is not reflected in these financial statements.

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

	<u>2002</u>	<u>2001</u>
Non-capital losses carried forward	\$ 818,989	\$ 1,074,392
Scientific Research and Experimental Development expenses	387,480	420,115
Net carrying amount of capital assets	1,627,717	1,696,943
	<hr/>	<hr/>
	2,834,186	3,191,450
Less valuation allowance	( 2,834,186)	( 3,191,450)
	<hr/>	<hr/>
	\$ -	\$ -
	<hr/> <hr/>	<hr/> <hr/>

The Company has recorded a valuation allowance against its future income tax assets based on the extent to which it is not more-likely-than-not that sufficient taxable income will be realized during the carry-forward periods to utilize all the future tax assets.

Note 14 Commitments

Technology Royalty

Pursuant to a revised License Agreement dated January 1, 1996 with Pyrotite Corporation ("Licensor") the Company is required to pay a royalty of 3% of USA fire retardant product gross sales, minimum US\$100,000 per annum from January 1, 1996 onward. The Company has granted to the Licensor the rights to certain technology referred to as IPOSB Technology.

Note 14 Commitments – (cont'd)

The Licensor is required to pay the Company a royalty of 3% of USA gross sales from the IPOSB technology, minimum of US\$50,000 per annum from January 1, 1996 onward.

License fee expense consists of the following for the years ended June 30, 2002, 2001 and 2000:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
License fee expense	\$ 156,770	\$ 151,790	\$ 147,310
License fee revenue	( 78,385)	( 75,895)	( 73,655)
	<u>\$ 78,385</u>	<u>\$ 75,895</u>	<u>\$ 73,655</u>

Note 15 Prior Period Restatement

The Company changed its accounting policy with respect to the deferral and amortization of foreign exchange gains/losses on long-term debt in accordance with the Canadian Institute of Chartered Accountants recommendations. The new recommendations require the inclusion in current income of all foreign exchange gains/losses on long-term debt instruments. As a result of this retroactive adjustment, the opening deficits for the years ended June 30, 2002, 2001 and 2000 were increased by \$111,717, \$86,610 and \$78,432 respectively. In addition, the net losses for the years ended June 30, 2001 and 2000 were increased by \$25,107 and \$8,178 respectively.

Note 16 Comparative Figures

Certain comparative figures of the prior years have been restated to conform with the presentation adopted for the current year.

Note 17 Differences Between Canadian and United States of America Accounting Principles

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

Note 17 Differences Between Canadian and United States of America Accounting Principles – (cont'd)

The Company's accounting principles generally accepted in Canada differ from accounting principles generally accepted in the United States of America as follows:

a) Earnings Per Share

Under Canadian GAAP basic earnings per share is calculated using the weighted average number of shares outstanding during the year. Fully diluted earnings per share assumes that the outstanding warrants at the end of the year have been exercised at the beginning of the year.

Under US GAAP, the computation of basic earnings per share considers the weighted average number of shares outstanding during the year. Diluted earnings per share reflects the potential dilution that will occur if securities or other contracts to issue common stock were exercised or converted in to common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Under Canadian GAAP, escrowed common shares are included in the calculation of loss per share. Under US GAAP, escrowed common shares are excluded in the calculation of loss per share.

The 173,452 (2001: 173,452; 2000: 173,452) common shares currently escrowed have been excluded for reporting loss per share on a US GAAP basis.

b) Accounting for Stock-based Compensation

The Company accounts for its share options under Canadian GAAP which requires no compensation expense be recognized because the exercise price of the stock options granted generally equals the fair value of the underlying stock on the date of the grant. Under SFAS-123, "Accounting for Stock-based Compensation" ("SFAS-123"), stock options are valued at the grant date using the Black-Scholes valuation model. Had compensation expense for the Company's share option plan been determined based on the Black-Scholes value at the grant date, pro-forma loss and loss per share would have been as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net loss in accordance with US GAAP as reported (Note 17 (f))	\$ ( 317,041)	\$ ( 453,979)	\$ ( 298,816)
Pro-forma adjustment for SFAS-123	( 41,500)	( 54,000)	( 91,600)
Pro-forma net loss	<u>\$ ( 358,541)</u>	<u>\$ ( 507,979)</u>	<u>\$ ( 390,416)</u>
Pro-forma net loss per share	<u>\$ ( 0.03)</u>	<u>\$ ( 0.05)</u>	<u>\$ ( 0.05)</u>

Note 17 Differences Between Canadian and United States of America Accounting Principles – (cont'd)

b) Accounting for Stock-based Compensation – (cont'd)

The fair value of these options was estimated at the date of the grant using the following weighted average assumptions:

	Years ended June 30,		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Volatility fact of expected market price of the Company's shares	76.5%	73.6%	114%
Dividend yield	0%	0%	0%
Weighted average expected life of stock options	5 yrs	1 year	2 yrs
Risk-free interest rate	3%	4%	5%

c) Accounting for Impairment of Long-lived Assets

In March, 1996, Statement of Financial Accounting Standards No. 12 "Accounting for Impairment of long-lived assets and for long-lived assets to be disposed of" was issued. Certain long-lived assets held by the Company must be reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Accordingly, the impairment loss is recognized in the period it is determined. The Company does not believe that the adoption of this accounting policy would have a material effect on its financial position or results of operations under US GAAP.

d) Accounting for Income Taxes

Under the asset and liability method of Statement of Financial Accounting Standards No. 109 ("SFAS-109"), deferred tax assets and liabilities are recognized for estimated future tax consequences attributable to differences between the financial statements carrying amount of existing assets and liabilities and their respective tax bases, measured using the provisions of enacted tax laws. A deferred tax asset with respect to loss carry-forwards and timing differences would not be recognized and the recognition criteria for deferred tax assets have not been met. Accordingly, the application of US GAAP does not result in a material difference from Canadian GAAP.

Note 17 Differences Between Canadian and United States of America Accounting Principles – (cont'd)

e) New Accounting Standards

- i) In June 2001, the Financial Accounting Standards Board approved for issuance, Statement of Financial Accounting Standards No. 143 (“SFAS No. 143”), “Accounting for Asset Retirement Obligations”, which addresses the accounting for legal obligations associated with the retirement of tangible long-lived assets. Under SFAS No. 143, the fair value of a liability for an asset retirement obligation shall be recognized in the period in which the obligation is incurred. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with early adoption permitted.
- ii) In August 2001, the Financial Accounting Standards Board approved for issuance, Statement of Financial Accounting Standards No. 144 (“SFAS No. 144”), “Accounting for the Impairment and Disposal of Long-lived Assets.” SFAS No. 144 was issued to resolve implementation issues that have been created under Statement of Financial Accounting Standards No. 121. Under SFAS No. 144 one accounting model is required to be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and certain additional disclosures are required. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 31, 2001.

The Company does not expect the adoption of these new accounting standards will have a material effect on its financial position or results of operations.

- f) The impact of the above on the financial statements for the fiscal years ended June 30 are as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Net loss for the year per Canadian and US GAAP	\$ ( 317,041)	\$ ( 453,979)	\$ ( 298,816)
Basic loss per share per US GAAP	\$ ( 0.03)	\$ ( 0.04)	\$ ( 0.04)
Weighted average number of shares outstanding per US GAAP	12,414,903	10,878,803	8,205,231