

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**QUARTERLY REPORT**  
for the period ended September 30, 2004

**Management Discussion & Analysis**

**Date of Report – November 26, 2004**

**Description of Business**

International Barrier Technology Inc. (the Company) manufactures and sells fire-rated building materials primarily in the U.S.A.

**Discussion of Operations**

**Sales** reported for the fiscal period ending September 30, 2004 were \$1,400,619, a 148% increase over the same period in the previous year and representing the second largest quarterly sales level for Barrier's fire resistant Blazeguard panels, slightly under the record sales level of \$1,628,500 for the previous quarter ending June 30, 2004. This is the third consecutive period where sales have exceeded \$1MM. Gross profit was up to \$357,772, representing an increase of 444%. The gross margin, improved from 14.2% to 25.5%,

Barrier realized a net loss of \$606,465 compared to a loss of \$136,321 in the same period the previous year. Operating income rose from a loss of \$72,228 to an income of \$92,730. The major reason for the increase in gross and net income was associated primarily with new efficiencies being realized in operations due to higher volumes of production and sales.

Sales as measured by surface volume of product shipped were 1,206,300 sq.ft. a 163% increase from the 458,500 sq.ft. shipped in the same period the previous year. Sales to Mulehide Products, Inc., Barrier's new business partner in the commercial modular business, accounted for 32.5% of sales (391,700 sq.ft.) during this period. Sales to Mulehide began early in calendar year 2004, so comparative sales to Mulehide for the same period in the previous year were nil. The new Blazeguard product, Mulehide FR panel, is an essential component of an Underwriters Laboratories, Inc. assembly listing for fire rated roofs in commercial modular buildings. Barrier anticipates that this market will continue to grow dramatically.

A substantial quarterly year to year sales volume increase was also experienced in Florida where sales volume improved from 138,400 sq.ft. to 456,288, an increase of 230%. This quarter to quarter gain is a continuation of improvements demonstrated in the last half of fiscal year 2003 as Barrier's independent manufacturers' representatives improve upon their ability to represent Blazeguard to town home builders. During this quarter, Barrier began to sell directly to two large distribution yards that previously had been required to purchase through the local wholesaler. These two distribution centres are Builders First Source, Inc. (BFS) and Stock Lumber Supply, Inc. Not only will direct sales to these organizations in Florida help Blazeguard be priced more competitively, these two organizations have a national presence with hundreds of locations respectfully all over the US. Having an existing relationship with these distribution companies, and in the case of Stock an improving relationship, will help Barrier attain its goal to increase market share in the Midwestern and western states by leveraging our success in Florida to new regions.

While volume decreased slightly to the Contractor Yard's (formerly a Lowe's Division), in this quarter, sales to the area served by the Contractor Yard's (mid-Atlantic region) actually increased from 141,800 sq.ft. to 184,320 sq.ft., an increase of 30%. Stock Lumber Supply, Kempsville Building Products, and Curtis Lumber are all lumber yards that have qualified recently to become certified Blazeguard distributors in this region. Spreading out the responsibility for regional distribution helps to increase industry awareness of the product and helps to attain the most competitive pricing of the product to the builder. Local sales representation, through Barrier's growing network of independent sales reps are helping to make the broadening of the Blazeguard distribution base possible.

**Cost of goods sold** in the period increased to \$1,042,847 from \$484,629 based on the higher volume of production and shipments. Efficiencies of scale, however, helped reduce direct costs. The Mulehide "C" panel, which comprises approximately 90% of MuleHide's current orders has a slightly less treatment weight than Barrier's tradition Blazeguard panel. While this contributed to the per sq.ft. reduction in costs of productions, the primary gain was simply in utilizing labour and materials more efficiently at these higher production rates. Efficiencies have improved. Future financials will continue to be impacted in a positive way now that the Mulehide product is both selling well and produced as a standard procedure in Barrier's manufacturing facility.

**Operating expenses** includes no license fees (for the first time) in the quarter now that Barrier has completed the purchase of the technology worldwide. Barrier purchased the technology and patents from Pyrotite Corporation on May 30, 2004 eliminating the requirement for future royalty payments. Research and development expenses have increased due to an enhanced level of activity to develop additional Underwriters Laboratory, Inc. (UL) fire resistance rated wall assemblies. The reported expense of \$28,411 was primarily for the fire tests and related expenses performed at UL's testing facility in Northbrook, Illinois.

**General and administrative expenses** in the reported period increased to \$236,631 from \$142,295 for the same period last year, a true reflection of increased volume. As a percent of revenue, however, general and administrative expenses dropped to an historic low of 16.8%. Last year, during the same period general and administrative costs were 25% of sales.

Barrier continues to invest more in sales marketing and investor relations in an effort to improve shareholder awareness of operational success and the attainment of important milestones. In the current reported period Barrier expended \$67,379 on sales marketing and investor relations activities whereas in the same period a year ago the expense was \$20,800. Filing fees of \$12,549, legal fees of \$34,907, and transfer agent fees of \$3,000 were required, in part, for the completion of a private placement which occurred during the period. Additionally, Barrier incurred legal expense in the preparation of new and improved nondisclosure agreements which are required from any party seeking information related to Barrier's business plan or potential technology licensing arrangements. Other administrative expenses were up proportionately with business growth.

Barrier plans to continue to invest a reasonable amount of resources in sales marketing and investor relations. In addition, Barrier plans to attend trade shows, such as the International Association of Homebuilders annual convention, in an effort to increase market awareness of Blazeguard®, the Pyrotite™ technology, and corporate achievements. Barrier intends to continue to expand upon its shareholder and customer communication programs to ensure the public is informed about business development and emerging opportunities.

**Other expenses** include non-cash items such as foreign exchange gain (loss), amortization, and stock based compensation. Barrier realized a foreign exchange gain of \$20,751 versus a loss of \$5,078 in the previous year. This foreign exchange gain reflects the strengthening of the Canadian dollar relative to the US dollar, which effectively reduces the value of U.S. denominated liabilities when translated into Canadian dollars for reporting purposes. This reporting period marks the beginning of the first full fiscal year where Barrier will be required to report all stock based compensation (non-cash) as a charge to the operating statement. The charge for this item in the current quarter is \$657,716 stock compensation expense. Refer to Critical Accounting Estimates discussion below.

**Operating income.** Barrier experienced an operating profit of \$92,730 in comparison to a loss of \$72,228 in the period ending September 30, 2003. These positive results are a continuation of trends that began in the third and fourth quarter fiscal year ending June 30, 2004 and are expected to continue in the ensuing quarters.

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

|  | Sept 30<br><u>2004</u> | June 30<br><u>2004</u> | Mar 31<br><u>2004</u> | Dec 31<br><u>2003</u> | Sept 30<br><u>2003</u> | June 30<br><u>2003</u> | Mar 31<br><u>2003</u> | Dec 31<br><u>2002</u> |
|--|------------------------|------------------------|-----------------------|-----------------------|------------------------|------------------------|-----------------------|-----------------------|
| Volume shipped<br>(MSF)                      | 1,206.3                | 1,278.3                | 1,139.8               | 505.1                 | 458.5                  | 600.4                  | 443.7                 | 557.4                 |
| Total Revenues<br>(000\$)                    | 1,400.6                | 1,628.5                | 1,327.7               | 561.3                 | 565.1                  | 620.4                  | 462.5                 | 606.6                 |
| Operating Income                             | 92.7                   | 33.1                   | (58.8)                | (133.9)               | (72.2)                 | (77.9)                 | (24.6)                | 23.7                  |
| Net income (loss)<br>before discontinued ops | (606.5)                | (25.6)                 | (119.1)               | (122.0)               | (136.3)                | 74.2                   | 98.1                  | 14.9                  |
| Per share                                    | (0.03)                 | -                      | (0.01)                | (0.01)                | (0.01)                 | -                      | 0.01                  | -                     |
| Per share, fully diluted                     | (0.03)                 | -                      | (0.01)                | (0.01)                | (0.01)                 | -                      | 0.01                  | -                     |

Sales volumes have taken a dramatic increase since the quarter ending December 31, 2003. Increases in sales volumes have occurred in Barrier's primary, established markets but the most significant gains have resulted from the new Mule Hide FR panel. As the Mulehide panel becomes even more of a standard production procedure, efficiencies will continue to improve along with increasing volume. Continued improvement in operating income is expected as the Mulehide panel continues to increase sales volume.

### **Selected Annual Information**

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

|                                       | <u>2004</u>  | <u>2003</u>  | <u>2002</u>  |
|---------------------------------------|--------------|--------------|--------------|
| Total revenue                         | \$ 4,082,511 | \$ 2,254,562 | \$ 1,860,167 |
| Net income (loss)                     | (402,966)    | 46,775       | (317,041)    |
| Per share                             | (0.02)       | 0.00         | (0.03)       |
| Per share, fully diluted              | (0.02)       | 0.00         | (0.03)       |
| Total assets                          | 3,855,746    | 1,305,794    | 1,209,991    |
| Total long-term financial liabilities | 844,345      | 948,447      | 1,161,504    |
| Cash dividends declared per share     | Nil          | Nil          | Nil          |

**New product and market development** initiatives continue to provide opportunities for sales expansion and growth. Significant progress was made in the effort to introduce fire rated roof assemblies for commercial modular buildings such as job-site trailers and semi-permanent buildings for school and hospital sites. Barrier, and its partner in this development endeavour (Mule Hide Products, Inc., one of the largest US providers of roofing products to the modular industry), have successfully established some of the largest modular building manufacturers in the US as customers.

Previously, the Company accounted for stock-based compensation using the settlement method. No compensation costs were recorded in the financial statements for share purchase options granted to employees or directors provided that pro forma disclosure was made. Consideration paid by employees or directors on the exercise of stock options and purchase of stock was credited to share capital.

Barrier and Mule Hide now intend to work toward the development of similar roofing systems (Class A and C) for use in residential construction. The target market for these residential roof deck assemblies will be the wild fire prone regions of the US south-western region and mountain states.

Roof decking for multi-family residential buildings is Barrier's largest and most stable **existing market application**, and, to date represents the majority of sales. Barrier's Florida wholesale distributor is currently purchasing product at a rate higher than ever and Florida continues to be become the most important US state market for Blazeguard. Management expects sales to multi-family residential construction to continue to grow as more builders become aware of the positive attributes of making Blazeguard their preferred fire-rated sheathing.

Barrier added an independent sales representative in Virginia early in 2004. This sales representative covers the territory from Maryland south to South Carolina. Sales into this area have increased substantially in this territory and expectations are for accelerated growth now that the representative is fully trained and familiar with the Blazeguard product and its applications. Additional sales representatives are being recruited in Texas and the upper Midwestern US. These positions are expected to be filled prior to the end of this fiscal year.

The Contractor Yards (formerly a Division of the Lowe's Company) continues to inventory Blazeguard at nine of their mid-Atlantic stores. While they are now a part of the Strober network of building products distribution, sales have continued to increase. Barrier has also begun the process of introducing Blazeguard to other stores that are a part of the Strober network, but were not part of the Contractor Yard network. Sales to these additional Strober yards have already occurred in New Jersey.

Lowe's Companies, Inc. will still not allow chemically treated fire rated sheathing to be sold at any of their home centre locations. This provides a compelling reason for local home centre managers to market and sell Blazeguard to their many builder customers across the US. Most Lowe's Home Improvement Warehouses have commercial sales departments that cater to the builder community. These commercial sales departments contact Barrier on a regular basis seeking information and price quotes on Blazeguard. Some of these inquiries are translating into orders and Barrier is convinced this business is poised to grow in the coming year. As interest builds in the Lowe's Home Improvement Warehouses network, it is possible that Lowe's may elect to inventory Blazeguard at central intra-company distribution centers. These centralized distribution centers serve to minimize transportation and handling costs to the Home Improvement Warehouses, making the product more economic and competitive.

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

Product and technology licensing scenarios are being developed within Barrier and management is confident that licensing relationships or relationships leading to licensing contracts will be in existence prior to the end of the current fiscal year.

**Financial position & financings.** During the period, Barrier issued a total of 2,100,000 common shares for proceeds totalling \$1,679,740 as follows:

- 1,470,000 common shares at \$1.08 (US\$0.85) per share pursuant to a private placement.
- 510,000, 100,000, 10,000 common shares at \$0.10, \$0.26, \$0.80 per share respectively pursuant to the exercise of share purchase options.
- 10,000 common shares at \$0.80 per share pursuant to the exercise of share purchase warrants.

These financings were necessary to enable Barrier to secure the resources needed to finance plant and equipment capital improvements. Plant improvements, which began during the reported period will be completed in fiscal year 2005 (estimated completion, May 2005). The end result will be a new, “state of the art” facility engineered to significantly increase efficiency as well as double current manufacturing capacity. The new line will serve as a “prototype” line for prospective licensees.

Barrier ended the period with a working capital surplus of \$2,336,053, a significant and noticeable improvement from the prior year’s deficit of \$43,280.

**Material transactions during this period.**

1. Barrier completed a private placement of 1,470,000 units at \$1.15 (US\$0.85) per unit for proceeds of \$1,686,825 (US\$1,249,500). Each unit consists of one common share and one share purchase warrant. Each warrant allows the holder to purchase one common share of the Company for US\$0.92 per share on or before August 20, 2006.
2. Barrier executed documents with the City of Watkins and local contractors for the beginning of the \$2.7MM capital improvement project which includes the construction of a new 15,000 square foot manufacturing building and a newly engineered manufacturing production equipment line which will enable Barrier to double current manufacturing capacity and significantly increase efficiency.
3. Barrier recorded and recognized a \$785,214 stock option compensation charge associated with the granting of 1,150,000 new stock options to directors, employees and consultants referred to in Note 3 to the financial statements (\$614,515 has been expensed and \$170,699 has been capitalized as deferred stock compensation charge). This entry was required by Canadian and USA Generally Accepted Accounting Principles – see Critical Accounting Estimates note below.

**Change in Accounting Policy**

Stock-based Compensation Plan

On July 1, 2004 the Company adopted the amended CICA Handbook Section 3870 – “Stock-based Compensation and Other Stock-based Payments”. This change in accounting policy has been applied retroactively with no restatement of prior periods presented for the statements of operations and deficit and cash flows.

Related Party Transactions

During the three months ended September 30, 2004 the Company incurred wages and management fees of \$40,882 with directors of the Company and companies with common directors.

### **Capitalization**

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

Issued: 25,074,855 common shares at \$16,148,122.

Options and warrants outstanding:

The following summarizes information about the stock options outstanding at September 30, 2004:

| <u>Number</u>    | <u>Exercise Price</u> | <u>Expiry Date</u> |
|------------------|-----------------------|--------------------|
| 125,000          | \$0.26                | July 10, 2005      |
| 110,000          | \$0.80                | January 13, 2006   |
| 50,000           | \$1.05                | April 29, 2006     |
| 428,500          | \$0.10                | March 5, 2008      |
| <u>1,150,000</u> | \$0.76                | August 24, 2009    |
| <u>1,863,500</u> |                       |                    |

At September 30, 2004, 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> |
|------------------|-----------------------|--------------------|
| 170,000          | \$0.80 Cdn            | February 2, 2005   |
| 750,000          | \$1.31 Cdn            | June 1, 2006       |
| <u>1,470,000</u> | \$0.92 US             | August 20, 2006    |
| <u>2,390,000</u> |                       |                    |

### **Critical Accounting Estimates**

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

As described in Note 2 and Note 3 to the financial statements, the Company is required by the Canadian and USA Accounting Authorities (Canadian Institute of Chartered Accountants and American Institute of Certified Public Accountants) to put a fair market value on newly issued stock options. This fair market value of the stock options is the difference between an estimated fair market value common share trading price (52 week average) and the stock option exercise price (the Black-Scholes Option Pricing Formula).

As at September 30, 2004, this accounting estimate resulted in the estimated fair market value common share trading price to be \$1.44 when the November 24, 2004 actual trading price is \$0.66. The net result to the Company is the accounting estimate necessity of recognizing and recording at September 30, 2004 a \$657,716 stock compensation expense when, in fact, there is no stock compensation charge or expense value to record based on the November 24, 2004 \$0.66 common share trading price.

Other Matters

As at September 30, 2004, the Company does not have any off-balance sheet arrangements to report.

As at September 30, 2004, the Company does not have any legal proceedings to report.

Subsequent to September 30, 2004, the Company issued 100,000 common shares at \$0.26 per share pursuant to the exercise of share purchase options.

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

September 30, 2004

(Stated in Canadian Dollars)

(Unaudited)

---

THE ACCOMPANYING FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003 HAVE NOT BEEN REVIEWED OR AUDITED BY THE COMPANY'S AUDITORS.

---

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
September 30, 2004 and June 30, 2004  
(Stated in Canadian Dollars)  
(Unaudited)

|   | September 30,<br><u>2004</u> | June 30<br><u>2004</u> |
|---|------------------------------|------------------------|
| <b><u>ASSETS</u></b>                                    |                              |                        |
| Current   |                              |                        |
| Cash and term deposits                                  | \$ 2,134,176                 | \$ 648,407             |
| Accounts receivable                                     | 312,808                      | 588,662                |
| Inventory   | 204,683                      | 123,823                |
| Prepaid expenses and deposits                           | <u>21,750</u>                | <u>11,746</u>          |
|   | 2,673,417                    | 1,372,638              |
| Capital assets  | 937,596                      | 894,143                |
| Deferred stock compensation charge                      | -                            | 111,052                |
| Trademark and technology rights – Note 5                | <u>1,431,359</u>             | <u>1,477,913</u>       |
|   | <u>\$ 5,042,372</u>          | <u>\$ 3,855,746</u>    |
| <b><u>LIABILITIES</u></b>                               |                              |                        |
| Current   |                              |                        |
| Revolving operating loan                                | \$ -                         | \$ 134,047             |
| Accounts payable and accrued liabilities                | 243,165                      | 487,244                |
| Current portion of long-term debts                      | 26,147                       | 26,147                 |
| Current portion of obligation under capital leases      | <u>68,052</u>                | <u>68,052</u>          |
|   | 337,364                      | 715,490                |
| Long-term debts   | 33,880                       | 51,585                 |
| Obligation under capital leases                         | <u>706,298</u>               | <u>792,760</u>         |
|   | 1,077,542                    | 1,559,835              |
| <b><u>SHAREHOLDERS' EQUITY</u></b>                      |                              |                        |
| Share capital – Notes 3 and 6                           |                              |                        |
| Authorized: 100,000,000 common shares without par value |                              |                        |
| Issued: 25,074,855 common shares                        | 16,148,122                   | 14,388,228             |
| Contributed surplus                                     | 727,722                      | 167,892                |
| Deficit   | <u>(12,911,014)</u>          | <u>(12,260,209)</u>    |
|   | <u>3,964,830</u>             | <u>2,295,911</u>       |
|   | <u>\$ 5,042,372</u>          | <u>\$ 3,855,746</u>    |

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
for the three months ended September 30, 2004 and 2003  
(Stated in Canadian Dollars)  
(Unaudited)

|   | <u>2004</u>      | <u>2003</u>     |
|---|------------------|-----------------|
| Sales                                   | \$ 1,400,619     | \$ 565,088      |
| Cost of sales                           | <u>1,042,847</u> | <u>484,629</u>  |
| Gross profit                            | <u>357,772</u>   | <u>80,459</u>   |
| Operating Expenses                      |                  |                 |
| Research and development                | 28,411           | 2,508           |
| License fee expense                     | <u>-</u>         | <u>7,884</u>    |
|   | <u>28,411</u>    | <u>10,392</u>   |
| General and Administrative Expenses     |                  |                 |
| Accounting and audit fees               | 2,867            | 18,696          |
| Advertising                             | 3,668            | 3,450           |
| Filing fees                             | 12,549           | 3,072           |
| Insurance                               | 6,455            | 6,449           |
| Interest and bank charges – Note 4      | -                | 6,843           |
| Interest on long-term debt              | 11,898           | 7,677           |
| Legal fees                              | 34,907           | 5,786           |
| Office and miscellaneous                | 779              | 12,373          |
| Sales, marketing and investor relations | 67,379           | 20,800          |
| Telephone                               | 2,288            | 2,662           |
| Transfer agent fees                     | 3,000            | 1,509           |
| Travel, promotion and trade shows       | 12,687           | 8,324           |
| Wages and management fees – Note 4      | <u>78,154</u>    | <u>44,663</u>   |
|   | <u>236,631</u>   | <u>142,295</u>  |
| Income (loss) from operations           | <u>92,730</u>    | <u>(72,228)</u> |

/...cont'd

SEE ACCOMPANYING NOTES

Continued

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
for the three months ended September 30, 2004 and 2003  
(Stated in Canadian Dollars)  
(Unaudited)

|   | <u>2004</u>                   | <u>2003</u>                   |
|---|-------------------------------|-------------------------------|
| Other items:                                  |                               |                               |
| Foreign exchange gain (loss)                  | 20,751                        | (5,078)                       |
| Amortization                                  | (67,176)                      | (17,697)                      |
| Stock compensation expense                    | (657,716)                     | (42,008)                      |
| Interest income                               | <u>4,946</u>                  | <u>690</u>                    |
|   | <u>(699,195)</u>              | <u>(64,093)</u>               |
| Net loss for the period                       | (606,465)                     | (136,321)                     |
| Deficit, beginning of the period              | (12,260,209)                  | (11,857,243)                  |
| Change in accounting policy – Note 2          | <u>(44,340)</u>               | <u>-</u>                      |
| Deficit, end of the period                    | <u><u>\$ (12,911,014)</u></u> | <u><u>\$ (11,993,564)</u></u> |
| Basic and diluted loss per share              | <u><u>\$ (0.03)</u></u>       | <u><u>\$ (0.01)</u></u>       |
| Weighted average number of shares outstanding | <u><u>24,225,942</u></u>      | <u><u>19,050,773</u></u>      |

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the three months ended September 30, 2004 and 2003  
(Stated in Canadian Dollars)  
(Unaudited)

|   | <u>2004</u>         | <u>2003</u>       |
|---|---------------------|-------------------|
| Operating Activities  |                     |                   |
| Net loss for the period   | \$ (606,465)        | \$ (136,321)      |
| Charges not involving cash:   |                     |                   |
| Amortization  | 67,176              | 17,697            |
| Foreign exchange loss   | -                   | 2,244             |
| Stock compensation expense  | <u>657,716</u>      | <u>42,08</u>      |
|   | 118,427             | (74,372)          |
| Changes in non-cash working capital balances related to operations: |                     |                   |
| Accounts receivable   | 275,854             | 61,682            |
| Prepaid expenses and deposits                                       | (10,004)            | (1,913)           |
| Inventory   | (80,860)            | (53,328)          |
| Accounts payable and accrued liabilities                            | (244,079)           | 14,371            |
| Due to related parties  | <u>-</u>            | <u>9,450</u>      |
|   | <u>59,338</u>       | <u>(44,110)</u>   |
| Investing Activity  |                     |                   |
| Purchase of capital assets  | <u>(64,075)</u>     | <u>-</u>          |
| Financing Activities  |                     |                   |
| Decrease in bank indebtedness                                       | (134,047)           | (66,626)          |
| Decrease in long-term debts   | (17,705)            | (3,235)           |
| Decrease in obligation under capital leases                         | (86,462)            | (14,912)          |
| Common shares issued for cash                                       | 1,728,720           | 300,000           |
| Share issue costs   | <u>-</u>            | <u>(4,621)</u>    |
|   | <u>1,490,506</u>    | <u>210,606</u>    |
| Change in cash during the period                                    | 1,485,769           | 166,496           |
| Cash and term deposits, beginning of the period                     | 648,407             | 98,952            |
| Cash and term deposits, end of the period                           | <u>\$ 2,134,176</u> | <u>\$ 265,448</u> |
| Supplementary Cash Flow Information                                 |                     |                   |
| Cash paid for:  |                     |                   |
| Interest  | <u>\$ 11,898</u>    | <u>\$ 14,520</u>  |
| Income taxes  | <u>\$ -</u>         | <u>\$ -</u>       |

SEE ACCOMPANYING NOTES

**INTERNATIONAL BARRIER TECHNOLOGY INC.**  
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2004  
(Stated in Canadian Dollars)  
(Unaudited)

Note 1      **Interim Reporting**

The unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and follow the same accounting policies and methods of their application as the Company's most recent annual financial statements except as disclosed below. These interim financial statements do not include all of the disclosure included in the annual financial statements, and accordingly, they should be read in conjunction with the annual financial statements for the year ended June 30, 2004. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements.

Note 2      **Change in Accounting Policy**

**Stock-based Compensation Plan**

On July 1, 2004 the Company adopted the amended CICA Handbook Section 3870 – "Stock-based Compensation and Other Stock-based Payments". This change in accounting policy has been applied retroactively with no restatement of prior periods presented for the statements of operations and deficit and cash flows.

Under this amended standard, the Company must account for compensation expense based on the fair value of rights granted under its stock-based compensation plan. Under this method, compensation costs attributable to share options granted to employees or directors is measured at fair value at the grant date, and expensed over the expected exercise time with a corresponding increase to contributed surplus. Upon exercise of stock options, consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

Previously, the Company accounted for stock-based compensation using the settlement method. No compensation costs were recorded in the financial statements for share purchase options granted to employees or directors provided that pro forma disclosure was made. Consideration paid by employees or directors on the exercise of stock options and purchase of stock was credited to share capital.

As a result of this change at July 1, 2004 contributed surplus and deficit increased by \$44,340, being the fair value of share purchase options granted to employees or directors during the period July 1, 2002 to June 30, 2004 which were previously shown in pro forma note disclosure.

International Barrier Technology Inc.  
Notes to the Interim Consolidated Financial Statements  
September 30, 2004  
(Stated in Canadian Dollars)  
(Unaudited) – Page 2

Note 3 Share Capital

|  | <u>Number</u>     | <u>Amount</u>        |
|--|-------------------|----------------------|
| Issued: Common shares  |                   |                      |
| Balance, June 30, 2004   | 22,974,855        | \$ 14,388,228        |
| (i) For cash pursuant to a private placement                                 |                   |                      |
| – at \$1.11  |                   |                      |
| – (US\$0.85)   | 1,470,000         | 1,635,720            |
| (ii) For cash pursuant to exercising options                                 |                   |                      |
| – at \$0.10  | 510,000           | 51,000               |
| – at \$0.26  | 100,000           | 26,000               |
| – at \$0.80  | 10,000            | 8,000                |
| (iii) For cash pursuant to exercising warrants                               |                   |                      |
| – at \$0.80  | 10,000            | 8,000                |
| Amounts reclassified from contributed surplus upon exercise of stock options | <u>-</u>          | <u>31,174</u>        |
| Balance, September 30, 2004  | <u>25,074,855</u> | <u>\$ 16,148,122</u> |

Escrow:

At September 30, 2004, 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 bodies.

Commitments:

Stock-based Compensation Plan

At September 30, 2004, the Company has granted directors, officers and consultants the option to purchase 1,863,500 common shares of the Company.

A summary of the status of company's stock option plan for the three months ended September 30, 2004 is presented below:

|                                      | <u>Number<br/>of Shares</u> | <u>Weighted<br/>Average<br/>Exercise<br/>Price</u> |
|--------------------------------------|-----------------------------|--|
| Outstanding, beginning of the period | 1,333,500                   | \$0.23   |
| Exercised                            | (620,000)                   | \$0.14   |
| Granted                              | 1,150,000                   | \$0.76   |
|                                      | <u>1,863,500</u>            | <u>\$0.59</u>                                      |
| Outstanding, end of the period       | <u>1,863,500</u>            | <u>\$0.59</u>                                      |
| Exercisable, end of the period       | <u>1,546,000</u>            | <u>\$0.54</u>                                      |

International Barrier Technology Inc.  
Notes to the Interim Consolidated Financial Statements  
September 30, 2004  
(Stated in Canadian Dollars)  
(Unaudited) – Page 3

Note 3 Share Capital – (cont'd)

Commitments: – (cont'd)

Stock-based Compensation Plan – (cont'd)

The following summarizes information about the stock options outstanding at September 30, 2004:

| <u>Number</u>    | <u>Exercise Price</u> | <u>Expiry Date</u> |
|------------------|-----------------------|--------------------|
| 125,000          | \$0.26                | July 10, 2005      |
| 110,000          | \$0.80                | January 13, 2006   |
| 50,000           | \$1.05                | April 29, 2006     |
| 428,500          | \$0.10                | March 5, 2008      |
| <u>1,150,000</u> | \$0.76                | August 24, 2009    |
| <u>1,863,500</u> |                       |                    |

During the three months ended September 30, 2004, a compensation charge associated with the granting of 1,150,000 stock options to directors, employees and consultants in the amount of \$785,214 was recognized in the financial statements. Due to the vesting provisions of the stock option plan \$170,699 is presented as a deferred stock compensation charge and the balance of \$614,515 has been expensed.

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

|                         | Three months ended   |             |
|-------------------------|----------------------|-------------|
|                         | <u>September 30,</u> |             |
|                         | <u>2004</u>          | <u>2003</u> |
| Expected dividend yield | 0.0%                 | 0.0%        |
| Expected volatility     | 85%                  | 137%        |
| Risk-free interest rate | 2.00%                | 2.68%       |
| Expected term in years  | 5                    | 2           |

International Barrier Technology Inc.  
Notes to the Interim Consolidated Financial Statements  
September 30, 2004  
(Stated in Canadian Dollars)  
(Unaudited) – Page 4

Note 3 Share Capital – (cont'd)

Commitments: – (cont'd)

Warrants

At September 30, 2004, 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> |
|------------------|-----------------------|--------------------|
| 170,000          | \$0.80 Cdn            | February 2, 2005   |
| 750,000          | \$1.31 Cdn            | June 1, 2006       |
| <u>1,470,000</u> | \$0.92 US             | August 20, 2006    |
| <u>2,390,000</u> |                       |                    |

Note 4 Related Party Transactions

The Company was charged the following by directors of the Company or private companies with common directors during the three months ended September 30, 2004 and 2003:

|                           | <u>2004</u>      | <u>2003</u>      |
|---------------------------|------------------|------------------|
| Interest and bank charges | \$ -             | \$ 450           |
| Wages and management fees | <u>40,882</u>    | <u>42,120</u>    |
|                           | <u>\$ 40,882</u> | <u>\$ 42,570</u> |

Note 5 Trademark and Technology rights

|   | <u>September 30,</u><br><u>2004</u> | <u>June 30,</u><br><u>2004</u> |
|---|-------------------------------------|--------------------------------|
| Trademark and technology rights – at cost | \$ 1,489,771                        | \$ 1,489,771                   |
| Less: accumulated amortization            | <u>(58,412)</u>                     | <u>(11,858)</u>                |
|   | <u>\$ 1,431,359</u>                 | <u>\$ 1,477,913</u>            |

International Barrier Technology Inc.  
Notes to the Interim Consolidated Financial Statements  
September 30, 2004  
(Stated in Canadian Dollars)  
(Unaudited) – Page 5

Note 6      Subsequent Event

Subsequent to September 30, 2004, the Company issued 100,000 common shares at \$0.26 per share pursuant to the exercise of share purchase options.

Note 7      Canadian and United States of America Accounting Principles

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada, 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 the United States of America.