

INTERNATIONAL BARRIER TECHNOLOGY INC.
YEAR END REPORT
for the year ended June 30, 2004

Schedule C: Management Discussion & Analysis

Description of Business

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

Sales reported for the fiscal year ending June 30, 2004 were \$4,082,511 a 81% increase over the previous year and record high sales of Barrier's fire resistant Blazeguard panels. Gross profit was up to \$636,535, a 30.6% annual increase. The gross margin, which declined from 21.6% to 15.6% was impacted by a substantial increase in substrate costs (Oriented Strand Board and plywood). To maintain market competitiveness, Barrier does not add a percentage mark-up to the cost of substrate when establishing pricing, merely passing the cost through with a small handling charge. Profit is taken only on Barrier's proprietary treatment of the substrate. Therefore, when substrate prices go up dramatically, gross margins on the entire product decline even though bottom line contribution to product sales have not. The average cost of substrate for the year ending June 30, 2004 was \$408 per thousand square feet (msf) compared to \$235 per msf the previous year.

Barrier realized a net loss of \$(402,966) compared to a \$46,775 net income in the year ending June 30, 2003. The major reasons for the decline in net income were charges associated with new product introductions (including R&D) and costs associated with sales, marketing, and investor relations. These items will be discussed in greater detail below.

Sales as measured by surface footage of product shipped increased to 3.4 million square feet from 2.11 million square feet, an increase of 61.1%. This year to year increase follows a year where sales volume had improved from 1.77 million square feet, resulting in a two year increase of 92.1%. Another substantial year to year sales volume increase of 68.9% was experienced in Florida, where two manufacturers' representatives continue to represent Blazeguard to town home builders. While volume increased moderately through Lowe's Companies, Inc., The Contractor Yards, this division was sold to Strober Building Products, Inc. where no restrictions on the sale of FRT plywood exist. Management anticipates that The Contractor Yard's, as a Division of Strober, will continue to be a viable and growing part of Blazeguard's distribution network. Blazeguard continues to be the only fire-rated sheathing carried by the Lowe's Company and Barrier intends to help introduce the product to their home centre stores as the current year progresses. Northeastern US sales through our oldest distribution partner in New Jersey, Manufacturers Reserve Supply (MRS), have remained fairly stable following three years of decline.

The new Blazeguard product, Mule Hide FR panel, was introduced in January 2004 and accounted for 604,200 sq. ft. (17.9%) of Barriers annual sales volume. This panel is an essential component of an Underwriters Laboratories, Inc. assembly listing for fire rated roofs in commercial modular buildings. Barrier expects this market to grow exponentially in the coming years.

Cost of goods sold increased to \$3,445,976 from \$1,766,992. This increase resulted predominantly from increased sales volume, but was also a result of high sheathing costs throughout the year. Additionally, Barrier experienced a significant loss of efficiency (higher per unit labour costs) as the new Mule Hide FR panel was introduced into the manufacturing process. The manufacturing process has since been modified to accommodate the production of this product easily and efficiently. Future financials will be impacted in a very positive way now that this product is selling well and produced as a standard procedure in the manufacturing plant.

Operating expenses, including license fees/revenues and R&D, increased to \$117,077 from \$65,131 the previous year. These costs include the annual minimum royalty net expense of \$61,645 (US \$45,833) discussed in Note 11. Barrier purchased the technology and patents from Pyrotite Corporation closing on May 30, 2004 (see Note 5) eliminating the requirement for future royalty payments. Research and development expenses of \$55,432 were a continuation of the expenses and tests which were instigated last year and were required to complete the UL certification process for the Mule Hide roof assembly.

General and administrative expenses increased to \$751,291 from \$518,971 last year, an increase of 44.8%. As a percent of revenue these expenses dropped to 18.4% from 23.0% the prior year, and they are expected to continue to decline (as a percentage of revenue) as sales volume increases.

The most dramatic change in year to year administrative costs occurred in the area of sales marketing and investor relations. Barrier spent \$251,928 on sales marketing and investor relations activities in FY 2004, up from \$53,790. Activities focused on improving the company's website (www.intlbarrier.com) and developing point of sale materials for investors and customers. Barrier attended trades shows, including the International Association of Homebuilders annual convention, as well as, The Money Show, in Las Vegas, Nevada. Barrier purchased radio advertising on nationally (US) broadcast financial programs 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 made informed about the business development and emerging opportunities.

Other administrative costs were up proportionately with business growth, with the exception of legal costs which rose from \$18,955 to \$29,536 and filing fees which rose from \$10,274 to \$31,275. Both of these expenses related to the technology purchase endeavour, and in the development of legal supply agreement documents for Mule Hide.

Other expenses include non-cash items such as foreign exchange gain, amortization, and stock based compensation. Barrier realized a foreign exchange gain of \$6,277 versus \$153,202 in the previous year when the stronger Canadian dollar effectively reduced the value of U.S. denominated liabilities when translated into Canadian dollars for reporting purposes. This reporting period marks the first year end period where Barrier is required to report stock based compensation (non-cash) as a charge to the operating statement (see Note 9). This change accounted for an expense of \$95,763 where in previous years the category was not reported.

Operating and net income. Barrier experienced an operating loss of \$231,833 in comparison to \$96,532 in fiscal 2003 and \$152,592 in the year ending June 30, 2002. The business development expenditures represented in these operating losses enabled Barrier to begin the new fiscal year with excellent positioning for continued growth and to realize profitability. Net loss was \$402,966 compared to a net income of \$46,776 in fiscal year 2003.

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

	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>	<u>2003</u>	<u>2003</u>	<u>2002</u>	<u>2002</u>
Volume shipped (MSF)	1,278.3	1,139.8	505.1	458.5	600.4	443.7	557.4	509.5
Total Revenues (000\$)	1,628.5	1,327.7	561.3	565.1	620.4	462.5	606.6	565.1
Operating income (loss)	33.1	(58.8)	(133.9)	(72.2)	(77.9)	(24.6)	23.7	(17.7)
Net income (loss)	(25.6)	(119.1)	(122.0)	(136.3)	74.2	98.1	14.9	(140.4)
Per share	-	(0.01)	(0.01)	(0.01)	-	0.01	-	(0.01)
Per share, fully diluted	-	(0.01)	(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 occurred in Barrier's primary, established markets but the most significant gains have resulted from the new Mule Hide FR panel. While net income has not improved as dramatically as sales volume, increasing net income numbers are expected now that the new production techniques have been implemented for this product and R&D expenses are substantially complete. Operating income, however, took a dramatic positive turn beginning with the quarter ending March 31, 2004. As the Mulehide panel became a standard production procedure, efficiencies improved along with increasing volume. Continued improvement in operating income is expected as the Mulehide panel continues to increase sales volume.

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.

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 has become the most important US state market for Blazeguard. Sales into Florida increased by 623,300 square feet or 68.9%, after growing 77% the previous year. 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 have increased moderately 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 (see Note 5). 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 fiscal 2004, Barrier issued a total of 4,336,500 common shares for proceeds totalling \$2,713,350 as follows:

- 1,000,000 common shares at \$0.30 per share (with a 100,000 common share “finders fee” pursuant to the private placement of these shares);
- 1,200,000 common shares at \$0.64 per share pursuant to a private placement;
- 750,000 common shares at \$1.05 per share pursuant to a private placement;
- 171,500 common shares at \$0.10 per share pursuant to the exercise of share purchase options;
- 95,000 common shares at \$0.26 per share pursuant to the exercise of share purchase options;
- 1,020,000 common shares at \$0.80 per share pursuant to the exercise of share purchase warrants.

All of these financings and the subsequent financials discussed following were necessary to enable Barrier to purchase the world-wide Pyrotite® technology (see Note 5) and perform plant and equipment capital improvements. Plant improvements, which will be completed in fiscal year 2005 (estimated completion, May 2005), were engineered to significantly increase efficiency as well as double current manufacturing capacity. The new line will also serve as a “prototype” line for prospective licensees.

Barrier ended fiscal 2004 with a working capital surplus of \$657,148, a significant and noticeable improvement from the prior year’s deficit of \$245,303.

Subsequent to June 30, 2004 (see Note 16), Barrier:

- raised an additional \$1,686,825 by completing a private placement of 1,470,000 common shares at \$1.15 per share;
- 620,000 common shares at prices ranging from \$0.10 - \$0.26 per share pursuant to the exercise of share purchase options for proceeds of \$85,000; and,
- issued 10,000 common shares at \$0.80 per share pursuant to the exercise of share purchase warrants for proceeds of \$8,000.
- granted 1,150,000 share purchase options to directors, officers, employees and consultants entitling the holders thereof the right to purchase one common share for each option held at \$0.76 per share until August 24, 2009.

Material transactions. As discussed in Note 5, on March 1, 2004, Barrier finalized an agreement to purchase a supply of the Pyrotite technology, including: US patents; foreign patent filings; manufacturing know-how; trade secrets, and trademarks, for \$1,423,082 (US\$1,000,000).

A supply agreement for the Mulehide FR panel was finalized between Mulehide Products, Inc. and Barrier which provided for minimum committed volumes, exclusivity and prices while also providing clauses for non-competition and confidentiality.

INTERNATIONAL BARRIER TECHNOLOGY INC.
REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004 and 2003
(Stated in Canadian Dollars)

TERRY AMISANO LTD.

KEVIN HANSON, CA

AMISANO HANSON
CHARTERED ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders,
International Barrier Technology Inc.

We have audited the consolidated balance sheets of International Barrier Technology Inc. as at June 30, 2004 and 2003 and the consolidated statements of operations, cash flows and shareholders' equity (deficiency) for the years ended June 30, 2004, 2003 and 2002. 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 Canadian generally accepted auditing standards and with the standards of the Public Company Accounting Oversight Board (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, 2004 and 2003 and the results of its operations and its cash flows for the years ended June 30, 2004, 2003 and 2002 in accordance with generally accepted accounting principles in Canada.

Vancouver, Canada
September 8, 2004

"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 accumulated 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 September 8, 2004 is expressed in accordance with Canadian reporting standards 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
September 8, 2004

"AMISANO HANSON"
Chartered Accountants

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED BALANCE SHEETS
June 30, 2004 and 2003
(Stated in Canadian Dollars)

	<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
Current			
Cash and term deposits		\$ 648,407	\$ 98,952
Accounts receivable		588,662	132,133
Inventory – Note 3		123,823	75,816
Prepaid expenses and deposits		11,746	13,110
		1,372,638	320,011
Capital assets – Note 4		894,143	912,392
Deferred stock compensation charge – Note 9		111,052	-
Trademark and technology rights– Notes 5 and 12		1,477,913	73,391
		\$ 3,855,746	\$ 1,305,794
 <u>LIABILITIES</u>			
Current			
Revolving operating loan – Note 6		\$ 134,047	\$ 101,899
Accounts payable and accrued liabilities – Note 12		487,244	355,778
Due to related parties – Note 12		-	18,225
Current portion of long-term debts – Note 7		26,147	25,052
Current portion of obligation under capital leases – Note 8		68,052	64,360
		715,490	565,314
Long-term debts – Note 7		51,585	78,793
Obligation under capital leases – Note 8		792,760	869,654
		1,559,835	1,513,761
 <u>SHAREHOLDERS' EQUITY (DEFICIENCY)</u>			
Share capital – Notes 9 and 16		14,388,228	11,649,276
Contributed surplus		167,892	-
Deficit		(12,260,209)	(11,857,243)
		2,295,911	(207,967)
		\$ 3,855,746	\$ 1,305,794

Nature and Continuance of Operations – Note 1
Commitments – Notes 7, 8, and 9
Subsequent Events – Note 16

APPROVED BY THE DIRECTORS:

“David Corcoran” Director

“Victor Yates” Director

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended June 30, 2004, 2003 and 2002
(Stated in Canadian Dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Sales – Note 15	\$ 4,082,511	\$ 2,254,562	\$ 1,860,167
Cost of sales	(3,445,976)	(1,766,992)	(1,421,028)
Gross profit	<u>636,535</u>	<u>487,570</u>	<u>439,139</u>
Licence fee revenue	-	36,259	-
Research and development costs – Note 10	(55,432)	(25,850)	(36,082)
License fee expense – Note 11	(61,645)	(75,540)	(78,385)
	<u>(117,077)</u>	<u>(65,131)</u>	<u>(114,467)</u>
	<u>519,458</u>	<u>422,439</u>	<u>324,672</u>
General and Administrative Expenses			
Accounting and audit fees	40,910	36,095	28,705
Consulting fees – Note 12	-	35,420	786
Filing fees	31,275	10,274	16,691
Insurance	27,483	27,475	27,025
Interest and bank charges – Note 12	21,817	28,169	42,463
Interest on long-term debt – Note 8	57,404	62,944	80,951
Legal fees	29,536	18,955	4,534
Office and miscellaneous	70,143	48,195	53,118
Sales marketing and investor relations	251,928	53,790	32,326
Telephone	11,247	9,631	7,355
Transfer agent fees	10,730	6,986	3,646
Wages and management fees – Note 12	198,818	181,037	179,664
	<u>751,291</u>	<u>518,971</u>	<u>477,264</u>
Loss before other	(231,833)	(96,532)	(152,592)
Other			
Amortization – Note 4	(85,950)	(98,300)	(175,725)
Foreign exchange gain	6,277	153,202	11,276
Gain on forgiveness of debt	-	88,405	-
Interest income	4,303	-	-
Stock-based compensation – Note 9	(95,763)	-	-
Net income (loss) for the year	<u>\$ (402,966)</u>	<u>\$ 46,775</u>	<u>\$ (317,041)</u>
Basic and diluted income (loss) per share	<u>\$ (0.02)</u>	<u>\$ 0.00</u>	<u>\$ (0.03)</u>
Weighted average number of shares outstanding	<u>20,121,061</u>	<u>14,056,684</u>	<u>12,414,903</u>

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2004, 2003 and 2002
(Stated in Canadian Dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Activities			
Net income (loss) for the year	\$ (402,966)	\$ 46,775	\$ (317,041)
Items not involving cash:			
Gain on forgiveness of debt	-	(88,405)	-
Amortization	85,950	98,300	175,725
Stock-based compensation	95,763	-	-
Changes in non-cash working capital balances related to operations:			
Accounts receivable	(456,529)	(6,604)	38,604
Inventory	(48,007)	8,842	13,750
Prepaid expenses and deposits	1,364	(3,983)	(8,000)
Accounts payable and accrued liabilities	131,466	(29,493)	86,720
Due to related parties	(18,225)	18,225	52,981
	<u>(611,184)</u>	<u>43,657</u>	<u>42,739</u>
Investing Activities			
Purchase of capital assets	(55,842)	(20,015)	-
Purchase of trademark and technology rights	(1,416,381)	(73,391)	-
	<u>(1,472,223)</u>	<u>(93,406)</u>	<u>-</u>
Financing Activities			
Decrease in unearned income	-	(4,798)	(3,802)
Decrease in long-term debts	(26,113)	(17,272)	(14,704)
Decrease in obligations under capital lease	(73,202)	(181,770)	(26,452)
Common shares issued for cash	2,700,029	320,000	60,000
Increase (decrease) in bank indebtedness	32,148	32,541	(57,781)
	<u>2,632,862</u>	<u>148,701</u>	<u>(42,739)</u>
Change in cash during the year	549,455	98,952	-
Cash and term deposits, beginning of the year	98,952	-	-
Cash and term deposits, end of the year	<u>\$ 648,407</u>	<u>\$ 98,952</u>	<u>\$ -</u>
Consists of:			
Cash	\$ 208,062	\$ 98,952	\$ -
Term deposits	440,345	-	-
	<u>\$ 648,407</u>	<u>\$ 98,952</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES

Continued

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended June 30, 2004, 2003 and 2002
(Stated in Canadian Dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Supplementary Cash Flow Information			
Cash paid for Interest	\$ 75,801	\$ 76,425	\$ 100,764
Cash paid for Income taxes	\$ -	\$ -	\$ -
Non-cash Transactions – Note 13			

SEE ACCOMPANYING NOTES

INTERNATIONAL BARRIER TECHNOLOGY INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIENCY)
for the years ended June 30, 2004, 2003 and 2002
(Stated in Canadian Dollars)

	<u>Common Stock</u>		<u>Contributed Surplus</u>	<u>Deficit</u>	<u>Total</u>
	<u>Issued Shares</u>	<u>Amount</u>			
Balance, June 30, 2001	12,538,355	\$ 10,969,276	\$ -	\$ (11,586,977)	\$ (617,701)
Issued for cash pursuant to exercise of share purchase options					
– at \$0.10	600,000	60,000	-	-	60,000
Net loss for the year	-	-	-	(317,041)	(317,041)
Balance, June 30, 2002	13,138,355	11,029,276	-	(11,904,018)	(874,742)
Issued for cash pursuant to a private placement					
– at \$0.10	3,500,000	350,000	-	-	350,000
Less: finders fees	-	(30,000)	-	-	(30,000)
Issued pursuant to debt settlement agreements					
– at \$0.15	2,000,000	300,000	-	-	300,000
Net income for the year	-	-	-	46,775	46,775
Balance, June 30, 2003	18,638,355	11,649,276	-	(11,857,243)	(207,967)
Issued for cash pursuant to a private placement					
– at \$0.30	1,000,000	300,000	-	-	300,000
– at \$0.64	1,200,000	768,000	-	-	768,000
– at \$1.05	750,000	787,500	-	-	787,500
Finders' fee	100,000	-	-	-	-
Less: issue costs	-	(13,321)	-	-	(13,321)
Issued for cash pursuant to exercise of share purchase options					
– at \$0.10	171,500	17,150	-	-	17,150
– at \$0.26	95,000	24,700	-	-	24,700
Issued for cash pursuant to exercise of share purchase warrants					
– at \$0.80	1,020,000	816,000	-	-	816,000
Stock-based compensation charges	-	-	206,815	-	206,815
Reclassification of stock-based compensation charges upon exercise of share purchase options	-	38,923	(38,923)	-	-
Net loss for the year	-	-	-	(402,966)	(402,966)
Balance, June 30, 2004	22,974,855	\$ 14,388,228	\$ 167,892	\$ (12,260,209)	\$ 2,295,911

INTERNATIONAL BARRIER TECHNOLOGY INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004 and 2003
(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 in Canada ("TSX") and the OTC Bulletin Board in the United States of America.

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 not achieved profitable operations during the year ended June 30, 2004 and has accumulated total losses of \$12,260,209 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 from normal operations when they come due.

Note 2 Significant 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. Differences with respect to accounting principles generally accepted in the United States of America are described in Note 18. 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 may 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, Trademark and Technology Rights and Amortization

Capital assets and trademark and technology rights 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
Leasehold improvements	straight line over 5 years
Equipment under capital lease	20% - declining balance
Building under capital lease	straight line over 20 years
Trademark and technology rights	straight line over 8 years

(d) Impairment of Long-Lived Assets

The Company evaluates the long-lived assets, including intangibles, for impairment when events or changes in circumstances indicate, in management's judgement, that the carrying value of such assets used in operations may not be recoverable. The determination of whether an impairment has occurred is based on management's estimate of undiscounted future cash flows attributable to the assets as compared to the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value for the assets and recording a provision for loss if the carrying value is greater than fair value.

(e) 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 payments and the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

(f) 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.

(g) Research and Development Costs

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

Note 2 Significant Accounting Policies – (cont'd)

(h) Basic and Diluted Loss Per Share

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.

(i) Financial Instruments

- Fair Value of Financial Instruments

The Company's financial instruments consist of cash and term deposits, accounts receivable, revolving operating loan, accounts payable and accrued liabilities, due to related parties, long-term debts and obligation under capital leases. Unless otherwise noted, the fair values of these financial instruments approximate their carrying values.

- Credit Risk

The Company grants credit to its customers in the normal course of business. Credit evaluations are performed on a regular basis and the financial statements take into account an allowance for bad debts. During the year ended June 30, 2004 three customers accounted for 82% of the Company's sales. The loss of any of these customers or the curtailment of purchases by such customers could have a material adverse effect on the Company's financial condition and results of operations.

- Currency Risk

The majority of the Company's operations are carried out in the United States of America. The Company's long-term debt and obligation under capital leases are repayable in U.S. dollars. These factors expose the Company to foreign currency exchange rate risk, which could have a material adverse effect on the profitability of the Company.

(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)

(j) Stock-based Compensation – (cont'd)

Effective for fiscal years beginning on or after January 1, 2002, public companies are required to adopt the recommendations of the Canadian Institute of Chartered Accountants regarding accounting for Canadian Stock-based Compensation. These require that all stock based payments to non-employees and direct awards of stock to employees be accounted for using a fair value based method of accounting. However, the standard permits the Company to continue its existing policy of not recording compensation cost on the grant of stock options to employees with the addition of pro forma information. The Company has elected to apply the pro forma disclosure provisions of the new standard to awards granted on or after July 1, 2002. Effective for fiscal years beginning on or after January 1, 2004, pro forma disclosure will no longer be permitted. The Company will adopt the new requirements commencing July 1, 2004 whereby the fair value of stock options awards to employees and directors will be recognized as an expense.

Upon the exercise of share purchase options, consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

(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 and collection is reasonably assured.

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 certain fire retardant technology known as IPOSB technology and collection is reasonably assured.

(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.

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Note 3 Inventory

	<u>2004</u>	<u>2003</u>
Raw materials	\$ 89,981	\$ 71,397
Finished goods	33,842	4,419
	<u>\$ 123,823</u>	<u>\$ 75,816</u>

Note 4 Capital Assets

	<u>2004</u>			<u>2003</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
Manufacturing equipment	\$ 572,523	\$ 546,559	\$ 25,964	\$ 18,015
Equipment and furniture	14,064	12,452	1,612	2,016
Computer equipment	25,195	19,265	5,930	788
Railway spur	132,449	31,818	100,631	104,824
Leasehold improvements	36,234	1,026	35,208	-
	<u>780,465</u>	<u>611,120</u>	<u>169,345</u>	<u>125,643</u>
Assets under capital lease				
Equipment	43,190	28,608	14,582	21,400
Land	74,434	-	74,434	74,434
Building	1,102,673	466,891	635,782	690,915
	<u>1,220,297</u>	<u>495,499</u>	<u>724,798</u>	<u>786,749</u>
	<u>\$ 2,000,762</u>	<u>\$ 1,106,619</u>	<u>\$ 894,143</u>	<u>\$ 912,392</u>

Amortization of assets under capital leases included in amortization expense for the year ended June 30, 2004 is \$61,952 (2003: \$66,438; 2002: \$62,218).

Note 5 Trademark and Technology Rights – Note 12

	<u>2004</u>	<u>2003</u>
Trademark and technology rights – at cost	\$ 1,489,771	\$ 73,391
Less: Accumulated Amortization	(11,858)	-
	<u>\$ 1,477,913</u>	<u>\$ 73,391</u>

Pursuant to an agreement for sale of technology dated March 1, 2004, between the Company and Pyrotite Corporation, the Company acquired the rights to certain fire retardant technology and trademarks for \$1,423,082 (US\$1,000,000). This purchase price includes a \$73,391 (US\$50,000) non-refundable deposit paid during the year ended June 30, 2003.

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Note 6 Revolving Operating Loan

The operating loan payable in US dollars (US\$100,500) bears interest at 8% per annum, is secured by accounts receivable and is due July 20, 2004.

Note 7 Long-term Debts

	<u>2004</u>	<u>2003</u>
Loan payable in US dollars (US \$21,292) is unsecured, repayable in monthly amounts of US \$510 including interest at 4% per annum, due March 10, 2008	\$ 28,398	\$ 35,643
Loan payable in US dollars (US\$9,687) 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	12,921	19,153
Loan payable in US dollars (US\$27,300) 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	36,413	49,049
	<u>77,732</u>	<u>103,845</u>
Less: current portion	(26,147)	(25,052)
	<u>\$ 51,585</u>	<u>\$ 78,793</u>

Principal payments for the next four years are as follows:

2005	\$ 26,147
2006	25,665
2007	19,895
2008	6,025
	<u>\$ 77,732</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:

2005	\$ 117,988
2006	109,026
2007	109,026
2008	106,319
2009	98,196
Thereafter	638,287
	<hr/>
	1,178,842
Less: amount representing interest	(318,030)
	<hr/>
	860,812
Less: current portion	(68,052)
	<hr/>
Long-term portion	\$ 792,760
	<hr/> <hr/>

The capital leases are repayable in U.S. dollars and 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, 2004 is \$54,469 (2003: \$53,878; 2002: \$69,346).

Note 9 Share Capital – Note 16

a) Authorized:

100,000,000 common shares without par value

b) Escrow:

At June 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 authorities.

Note 9 Share Capital – Note 16 – (cont'd)

c) Commitments:

Share Purchase Warrants

At June 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>
180,000	\$0.80	February 2, 2005
750,000	\$1.31	June 1, 2006
<u>930,000</u>		

Stock-based Compensation Plan

The Company has a stock option plan for officers, directors, employees and consultants. Options are granted with an exercise price determined by the Board of Directors, which may not be less than the market price of the Company's stock on the date of the grant less applicable discounts permitted by the TSX, subject to a minimum price of \$0.10. All options granted under the plan vest in stages over 12 months with no more than 25% of the shares subject to the option vesting in any three-month period.

At June 30, 2004, the Company has granted options to purchase 1,333,500 common shares of the Company.

A summary of the status of company's share purchase option plan as of June 30, 2004 and 2003 and changes during the years ending on those dates is presented below:

	<u>2004</u>		<u>2003</u>	
	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Number Of Shares</u>	<u>Weighted Average Exercise Price</u>
Options outstanding at beginning of the year	1,110,000	\$0.10	1,310,000	\$0.10
Granted	490,000	\$0.47	600,000	\$0.10
Expired or cancelled	-	-	(800,000)	\$0.10
Exercised	(266,500)	\$0.16	-	-
Options outstanding at end of the year	<u>1,333,500</u>	<u>\$0.23</u>	<u>1,110,000</u>	<u>\$0.10</u>
Options exercisable at end of the year	<u>1,068,500</u>	<u>\$0.15</u>	<u>660,000</u>	<u>\$0.10</u>

Note 9 Share Capital – Note 16 – (cont'd)

c) Commitments: – (cont'd)

Stock-based Compensation Plan – (cont'd)

The following summarizes information about share purchase options outstanding as at June 30, 2004:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
510,000	\$0.10	June 5, 2007
428,500	\$0.10	March 5, 2008
225,000	\$0.26	July 10, 2005
120,000	\$0.80	January 13, 2006
50,000	\$1.05	April 29, 2006
<u>1,333,500</u>		

During the year ended June 30, 2004, a compensation charge associated with stock options granted to consultants in the amount of \$206,815 was recognized in the financial statements. Due to the vesting provisions of the stock option plan \$111,052 is presented as a deferred stock compensation charge and the balance of \$95,763 has been expensed.

A compensation charge associated with directors' options in the amount of \$32,340 (2003: \$12,000) was not recognized in the financial statements, but is included in the pro forma disclosure below. This amount represents the vested portion to June 30, 2004. All stock-based compensation charges have been determined under the fair value method using the Black-Scholes option pricing model with the following assumptions:

	<u>2004</u>	<u>2003</u>
Expected dividend yield	0.0%	0.0%
Expected volatility	137% to 140%	94.6%
Risk-free interest rate	1.58% to 2.68%	3.5%
Expected term in years	2	5

Had the fair value method been used for those options issued to employees and directors', the Company's net income (loss) and earnings (loss) per share would have been adjusted to the pro forma amounts indicated below:

		<u>2004</u>	<u>2003</u>
Net income (loss) for the year	As reported	\$ (402,966)	\$ 46,775
	Pro forma	\$ (435,306)	\$ 34,775
Basic and diluted earnings (loss) per share	As reported	\$ (0.02)	\$ 0.00
	Pro forma	\$ (0.02)	\$ 0.00

Note 10 Research and Development Costs

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Research and development expense consists of the following for the years ended June 30, 2004, 2003 and 2002:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Salaries	\$ -	\$ -	\$ 21,707
Testing services	55,432	25,850	14,375
	<u>\$ 55,432</u>	<u>\$ 25,850</u>	<u>\$ 36,082</u>

Note 11 Technology Royalty – Note 5

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 the IPOSB Technology.

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, 2004, 2003 and 2002:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
License fee expense	\$ 123,290	\$ 151,080	\$ 156,770
License fee revenue	(61,645)	(75,540)	(78,385)
	<u>\$ 61,645</u>	<u>\$ 75,540</u>	<u>\$ 78,385</u>

Pursuant to an agreement dated March 1, 2004 the Company acquired the rights to the fire retardant technology and trademarks from the Licensor. As a result, no further license fees are payable or receivable after May 31, 2004.

Note 12 Related Party Transactions

The Company was charged the following by directors or private companies with common directors during the years ended June 30, 2004, 2003 and 2002:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Consulting fees	\$ -	\$ 5,000	\$ -
Interest and bank charges	2,847	8,470	21,512
Wages and management fees	175,598	181,037	177,093
Trademark and technology rights:			
Consulting fee	66,690	-	-
	<u>\$ 245,135</u>	<u>\$ 194,507</u>	<u>\$ 198,605</u>

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

Included in accounts payable and accrued liabilities is \$68,159 (2003: \$3,166) owing to directors of the Company.

The amount due to related parties of \$Nil (2002: \$18,225) consists of amounts due to directors or private companies with common directors with respect to unpaid managements fees, interest and advances. These amounts are unsecured, have no specific terms of repayment and bear interest at 10% per annum.

Note 13 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, 2004, 2003 and 2002, the following transactions were excluded from the statements of cash flows:

June 30, 2004

- the Company granted 490,000 share purchase options to its employees and directors. \$111,052 related to amounts not yet vested has been disclosed as a deferred stock compensation charge.

June 30, 2003

- the Company issued 2,000,000 common shares at \$0.15 per share to settle accounts payable and amounts due to related parties totalling \$300,000.

June 30, 2002

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

Note 14 Income Taxes

The Company has accumulated non-capital losses in Canada totalling \$950,223 which expire in 2011 and non-capital losses in the United States totalling \$644,119 which expire beginning in 2017. In addition, the Company has Scientific Research and Experimental Development Expenditures 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>2004</u>	<u>2003</u>
Non-capital losses carried forward	\$ 583,465	\$ 515,433
Scientific Research and Experimental Development expenses	402,493	387,480
Net carrying amount of capital assets	2,050,998	1,627,717
	<hr/>	<hr/>
	3,036,956	2,530,630
Less valuation allowance	(3,036,956)	(2,530,630)
	<hr/>	<hr/>
	\$ -	\$ -
	<hr/> <hr/>	<hr/> <hr/>

The amount taken into income as a future tax asset must reflect that portion of the tax asset which is likely to be realized from future operations. Considering the Company's cumulative losses in recent years, the Company has chosen to provide an allowance of 100% against all available tax assets, regardless of their terms of expiry.

Note 15 Economic Dependence

During the year ended June 30, 2004, three customers accounted for 82% of the Company's sales with totals of 47%, 19% and 16% respectively.

Note 16 Subsequent Events

Subsequent to June 30, 2004, the Company:

- i) 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.
- ii) issued 510,000 common shares at \$0.10 per share, 100,000 common shares at \$0.26 per share and 10,000 common shares at \$0.80 per share pursuant to the exercise of share purchase options for total proceeds of \$85,000.

Note 16 Subsequent Events – (cont'd)

- iii) issued 10,000 common shares at \$0.80 per share pursuant to the exercise of share purchase warrants for proceeds of \$8,000; and
- iv) granted 1,150,000 share purchase options to directors, officers, employees and consultants entitling the holders thereof the right to purchase one common share for each option held at \$0.76 per share until August 24, 2009.

Note 17 Comparative Figures

Certain figures of the prior years have been restated to conform with the current year's presentation.

Note 18 Differences Between Generally Accepted Accounting Principles in Canada and the United States of America

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").

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

a) Stock-based Compensation

Pursuant to Accounting Principles Board Opinion No. 25, the compensation charge associated with non-employee options is recorded as a reconciling item. The compensation charge for employees is not recognized. Under Statement of Financial Accounting Standards ("SFAS") No. 123, it is required to present pro-forma information as to the effect on income and earnings per share as if the Company had accounted for its employee stock options under the fair value method of that statement. Had compensation cost been determined based on the fair value at the grant dates for those options issued to employees (including directors of the Company), the Company's net loss and loss per share for the year ended June 30, 2002 would have been increased to the pro-forma net loss indicated below:

Note 18 Differences Between Generally Accepted Accounting Principles in Canada and the United States of America – (cont'd)

a) Stock-based Compensation – (cont'd)

	Year ended June 30, <u>2002</u>
Net loss in accordance with US GAAP as reported (Note 18 (d))	\$ (317,041)
Pro-forma adjustment for SFAS-123	(41,500)
Pro-forma net loss	<u>\$ (358,541)</u>
Pro-forma net loss per share	<u>\$ (0.03)</u>

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

Volatility fact of expected market price of the Company's shares	76.5%
Dividend yield	0%
Weighted average expected life of stock options	5 yrs
Risk-free interest rate	3%

b) Comprehensive Loss

US GAAP requires disclosure of comprehensive loss which, for the Company, is net income (loss) under US GAAP plus the change in cumulative translation adjustment under US GAAP.

The concept of comprehensive loss does not exist under Canadian GAAP.

c) New Accounting Standards

Management does not believe that any recently issued, but not yet effective, accounting standards if currently adopted could have a material effect on the accompanying financial statements.

