



INTERNATIONAL
Water-Guard

Interim Financial Statements of

**INTERNATIONAL WATER-GUARD
INDUSTRIES INC.**

Nine months ended June 30 , 2009

Interim Financial Statements of

INTERNATIONAL WATER-GUARD INDUSTRIES INC.

Notice of no auditor review of interim financial statements to June 30, 2009

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

INTERNATIONAL WATER-GUARD INDUSTRIES INC.
BALANCE SHEETS

	June 30 <u>2009</u>	September 30 <u>2008</u>
ASSETS		
Current assets:		
Cash	\$ 1,108,997	\$ 940,302
Accounts receivable	558,005	710,770
Inventory	602,508	496,335
Prepaid expenses	<u>23,867</u>	<u>65,407</u>
	2,293,377	2,212,814
 Equipment and furniture	 235,098	 250,607
Future income tax asset	<u>420,000</u>	<u>478,000</u>
	 <u>\$ 2,948,475</u>	 <u>\$ 2,941,421</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 347,712	\$ 449,247
Current portion of capital lease obligations and loan	<u>29,254</u>	<u>40,593</u>
	376,966	489,840
 Capital lease obligations and loan payable	 <u>22,108</u>	 <u>45,206</u>
	399,074	535,046
 Shareholders' equity:		
Share capital	8,111,486	8,108,202
Contributed surplus	183,502	165,803
Deficit	<u>(5,745,587)</u>	<u>(5,867,630)</u>
	2,549,401	2,406,375
	 <u>\$ 2,948,475</u>	 <u>\$ 2,941,421</u>

These financial statements have been prepared by management and are unaudited.
See accompanying notes to financial statements.

On behalf of the Board:

"B. W. Gowan" Director

"D. C. Fox" Director

INTERNATIONAL WATER-GUARD INDUSTRIES INC.
STATEMENTS OF OPERATIONS AND DEFICIT
Nine months ended June 30

	Three months ended June 30		Nine months ended June 30	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Sales	\$ 1,146,415	\$ 1,292,745	\$ 3,686,825	\$ 3,003,193
Cost of goods sold	<u>479,779</u>	<u>532,030</u>	<u>1,416,374</u>	<u>1,456,266</u>
Gross profit	<u>666,636</u>	<u>760,715</u>	<u>2,270,451</u>	<u>1,546,927</u>
Expenses:				
Selling expenses	103,071	109,787	346,169	234,537
Research & development	194,141	204,735	700,362	553,743
General & administration	314,516	356,473	985,927	911,960
Amortization	15,342	16,437	44,685	47,184
Interest & bank charges	<u>4,873</u>	<u>2,795</u>	<u>13,265</u>	<u>8,766</u>
	<u>631,942</u>	<u>690,227</u>	<u>2,090,408</u>	<u>1,756,189</u>
Earnings (loss) before income taxes	34,694	70,488	180,043	(209,263)
Income tax recovery (expense)	<u>(12,000)</u>	<u>(24,150)</u>	<u>(58,000)</u>	<u>72,150</u>
Net earnings (loss) for the period	22,694	46,338	122,043	(137,113)
Deficit, beginning of period	<u>5,768,281</u>	<u>5,954,037</u>	<u>5,867,630</u>	<u>5,770,586</u>
Deficit, end of period	<u>\$ 5,745,587</u>	<u>\$ 5,907,699</u>	<u>\$ 5,745,587</u>	<u>\$ 5,907,699</u>
Earnings (loss) per share amounts:				
Basic	<u>0.1¢</u>	<u>0.1¢</u>	<u>0.4¢</u>	<u>(0.4¢)</u>
Diluted	<u>0.1¢</u>	<u>0.1¢</u>	<u>0.4¢</u>	<u>(0.4¢)</u>
Weighted average shares outstanding				
Basic	<u>39,340,694</u>	<u>34,156,227</u>	<u>39,340,694</u>	<u>34,156,227</u>
Diluted	<u>39,340,694</u>	<u>35,869,553</u>	<u>39,340,694</u>	<u>35,869,553</u>

These financial statements have been prepared by management and are unaudited.
See accompanying notes to financial statements.

INTERNATIONAL WATER-GUARD INDUSTRIES INC.

STATEMENTS OF CASH FLOWS

Nine months ended June 30

	Three months ended June 30		Nine months ended June 30	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Cash flows from (used by):				
Operating activities:				
Net earnings (loss) for the period	\$ 22,694	\$ 46,338	\$ 122,043	\$ (137,113)
Items not involving cash -				
Income tax expense (recovery)	12,000	24,150	58,000	(72,150)
Compensation related to stock option plan	5,612	4,101	18,733	12,432
Change in value of foreign exchange contracts	43,732	-	55,532	-
Amortization	15,342	16,437	44,685	47,184
	<u>99,379</u>	<u>91,026</u>	<u>298,993</u>	<u>(149,647)</u>
Changes in non-cash operating working capital:				
Accounts receivable	131,417	(317,057)	97,233	(212,133)
Inventory	89,475	60,107	(106,173)	115,356
Prepaid expenses	19,451	37,811	41,540	(8,653)
Accounts payable and accrued liabilities	(160,927)	133,904	(101,534)	(42,342)
Cash flow from operations	<u>178,795</u>	<u>5,791</u>	<u>230,059</u>	<u>(297,419)</u>
Investing activities:				
Purchase of equipment and leaseholds	<u>(3,412)</u>	<u>3,637</u>	<u>(29,177)</u>	<u>(35,594)</u>
Financing activities:				
Issuance of capital stock	-	12,501	2,250	22,479
Proceeds (repayment) of other loans payable	<u>(9,376)</u>	<u>(6,933)</u>	<u>(34,438)</u>	<u>(27,042)</u>
	<u>(9,376)</u>	<u>5,568</u>	<u>(32,187)</u>	<u>(4,563)</u>
Increase (decrease) in cash	166,007	14,996	168,695	(337,575)
Cash beginning of period	<u>942,990</u>	<u>86,361</u>	<u>940,302</u>	<u>438,932</u>
Cash end of period	<u>\$ 1,108,997</u>	<u>\$ 101,357</u>	<u>\$ 1,108,997</u>	<u>\$ 101,357</u>
Supplemental information:				
Non-cash purchase of equipment using capital lease obligation	\$ -	\$ 17,571	\$ -	\$ 52,405

These financial statements have been prepared by management and are unaudited.

See accompanying notes to financial statements.

INTERNATIONAL WATER-GUARD INDUSTRIES INC.

STATEMENTS OF COST OF GOODS SOLD

Nine months ended June 30

	Three months ended June 30		Nine months ended June 30	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Opening inventory	\$ 691,983	\$ 586,983	\$ 496,335	\$ 642,232
Manufacturing costs:				
Materials	170,564	231,361	813,869	638,754
Labour, freight and other	89,163	102,821	297,235	298,359
Manufacturing overhead	<u>130,576</u>	<u>137,741</u>	<u>411,443</u>	<u>403,797</u>
Cost of goods available for sale	1,082,287	1,058,906	2,018,882	1,983,142
Closing inventory	<u>602,508</u>	<u>526,876</u>	<u>602,508</u>	<u>526,876</u>
Cost of goods sold	<u>\$ 479,779</u>	<u>\$ 532,030</u>	<u>\$ 1,416,374</u>	<u>\$ 1,456,266</u>

These financial statements have been prepared by management and are unaudited.
See accompanying notes to financial statements.

INTERNATIONAL WATER-GUARD INDUSTRIES INC.

Notes to Interim Financial Statements June 30, 2009

1. Significant accounting policies:

These interim statements are prepared in a manner consistent with the accounting policies and methods applicable to the Company's audited annual financial statements. However, these interim financial statements do not include all disclosure in notes normally provided in annual financial statements, consequently this report should be read in conjunction with the Company's audited financial statements for the year ended September 30, 2008.

In management's opinion, the unaudited financial information includes all normal adjustments necessarily to present fairly such information. Interim results are not necessarily indicative of the results expected for the fiscal year.

2. Equipment and furniture:

Manufacturing equipment	\$ 94,041
Furniture and office equipment	396,703
Leasehold improvements	<u>101,073</u>
	591,817
Accumulated amortization	<u>(356,719)</u>
Net book value	<u>\$ 235,098</u>

3. Obligations under capital leases and other loans, long term portion:

Obligations under capital leases	\$38,925
Loan Payable	<u>12,437</u>
	51,362
Current portion	<u>29,254</u>
Long term portion	\$22,108

The company's capital lease agreements have financed equipment acquired for the growth in operations. These lease obligations have terms from 1 to 31 months, each with purchase options approximating 10% of the equipment cost at the completion of the lease period. The present value of a lease obligation is recorded as a liability, with the current portion included in current liabilities.

4. Share capital:

a) Authorized capital of the Company as at June 30, 2009 includes an unlimited number of both common shares and preferred shares, of which 39,340,694 common shares and no preferred shares were issued and outstanding.

b) Under the Company's stock option plan, as of June 30, 2009 there were 2,628,500 options outstanding held by directors, officers and employees. These options are exercisable at various dates to January 7, 2014, as follows:

Exercise Price Per Share	Number Outstanding	Average Remaining Life in Months	Number Exercisable at March 31st
\$0.21	580,000	34.7	580,000
\$0.15	215,000	32.1	215,000
\$0.13	330,000	42.9	132,000
\$0.12	280,000	25.5	70,000
\$0.10	1,043,500	37.7	292,500
\$0.09	<u>180,000</u>	<u>5.5</u>	<u>180,000</u>
Total	2,628,500	33.7	1,469,500

5. Future accounting changes:

International Financial Reporting Standards:

In February 2008, Canada's Accounting Standards Board confirmed that publicly accountable enterprises would be required to adopt International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board for fiscal years beginning on or after January 1, 2011. The Company will be required to report under IFRS effective for interim and annual financial statements relating to its fiscal year beginning on October 1, 2011.

Adoption of IFRS will impact many areas of financial accounting and reporting. The Company is continuing with the process of assessing the detailed impact of the Canadian convergence initiative on its financial reporting, accounting policies and disclosure and is developing a conversion plan.

6. Commitments and contingencies:

Contractual obligations of the Company are substantially unchanged from those described within the notes to the fiscal 2008 audited financial statements.



INTERNATIONAL
Water·Guard

Management's Discussion and Analysis

**INTERNATIONAL WATER-GUARD
INDUSTRIES INC.**

Third quarter ending June 30, 2009

Dated: July 22, 2009

INTERNATIONAL WATER-GUARD INDUSTRIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS Third quarter June 30, 2009

Overview

International Water-Guard Industries Inc. ("IWG") is engaged in the development, design, manufacture, sale and service of potable water treatment equipment and water systems for international aviation customers. The principal technology embodied in IWG's water treatment equipment is irradiation by ultraviolet ("UV") light, combined with filtration, ancillary systems and controls designed by the Company. Water systems may include tanks, water lines, pumps, valves and electronic controls in addition to water treatment units.

This analysis should be read in conjunction with the Company's comparative interim financial statements for the nine months ended June 30, 2009. The following discussion and analysis in this report is based on information available to management as of July 22, 2009. The information is focused primarily on the current quarter's results and is intended to provide the reader with a further understanding of the Company's business and factors underlying its financial results.

This analysis and the accompanying interim financial statements, while unaudited, have been prepared using generally accepted accounting principles and have been approved by the Company's Audit Committee and Board of Directors.

Operating results

The decrease in Company revenue evident in the third quarter reflects the general decrease of sales in the business aviation manufacturing sector within the current economic environment.

The Company reported sales during the third quarter in fiscal 2009 of \$1,146,415 compared to \$1,292,745, a 11% decrease from the same quarter of the previous year. Third quarter net earnings were \$22,694 compared to net earnings of \$46,338 in the prior year's third quarter.

Nine month sales to June 30th were \$3,686,825 compared to \$3,003,193 in the prior year. Nine month net earnings were \$122,043 compared to a loss of \$137,113 a year earlier. This increase reflects a recovery from the prior year's temporary drop off in sales and of the US dollar exchange rate that occurred in the prior year's first six months.

In response to the reduced net sales trend to its business aviation customers that has emerged, the Company has begun slowing its product development and reducing certain administration costs during the current period.

The results for the quarter provide 0.1¢ net earnings per share in the current quarter (0.4¢ year to date) compared to net earnings of 0.1¢ per share in the third quarter of the prior year (loss of 0.4¢ year to date) on both a basic and fully diluted basis.

Sales and sales margins

As noted above, sales of aviation water treatment equipment decreased in the third quarter reflecting the recent trend of the business aviation sector. However sales of service and replacement parts continued to increase with a greater installed base, as did sales of water system components.

Operating expenses

Selling expenses of \$103,071 for this quarter decreased by 6% from the comparable period of the prior year, mainly due to reduced travel.

Engineering and product development expenses of \$194,141 in the quarter, is a decrease of 5% from the prior year due increased staff more than offset by completion of or planned late phase costs of product development during the quarter.

General, administration and information technology expenses totaled \$314,516, a 12% decrease from the same quarter in the prior year. This decrease is due to a reduction in compensation, investor relations and general office expenses offset by higher professional fees incurred.

Quarterly information

The following summary information is taken from the Company's quarterly and annual financial reports covering the last eight reporting quarters.

Quarterly Results Reported for: (\$000's except per share amounts)

	Fiscal Year 2009			Fiscal Year 2008				Fiscal year 2007
	June 30	Mar 31	Dec 31	Sept 30	Jun 30	Mar 31	Dec 31	Sept 30
Sales	\$1,146	\$1,325	\$1,215	\$1,153	\$1,293	\$856	\$854	\$1,279
Net income	\$23	\$39	\$60	\$41	\$46	(\$103)	(\$81)	\$405
Earnings per share, basic and fully diluted	0.1¢	0.1¢	0.2¢	0.1¢	0.1¢	(0.3)¢	(0.2)¢	1.2¢

There are no factors which may be used to predict future performance in either sales or in net income or loss on a quarter to quarter basis.

Liquidity and capital resources

The Company's liquidity and capital resource position has continued to improve during the third quarter of fiscal 2009 with the improvement in cash flow and earnings.

Cash position:

Cash increased by \$168,695 since the commencement of the fiscal year.

Cash flow from operations:

Cash provided from operating activities, including non-cash operating working capital, was \$178,794 in the current quarter compared to \$5,791 in the same quarter of the prior year.

Capital expenditures:

Capital expenditures of \$3,412 were incurred during the third quarter to purchase equipment.

Working capital position:

The Company completed its third quarter ended June 30th with working capital of \$1,908,405 an increase of \$185,431 since its fiscal year-end. This improvement resulted from the combined cash from operations and reductions in net receivables and inventory.

Future accounting changes

In February 2008, Canada's Accounting Standards Board confirmed that publicly accountable enterprises would be required to adopt International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board for fiscal years beginning on or after January 1, 2011. The Company will be required to report under IFRS effective for interim and annual financial statements relating to its fiscal year beginning on October 1, 2011.

Adoption of IFRS will impact several areas of financial accounting and reporting. The Company is continuing with the process of assessing the detailed impact of the Canadian convergence initiative on its financial reporting, accounting policies and disclosure and is developing a conversion plan.

Contractual obligations

The Company's lease and other contractual obligations have not changed materially from that stated in its audited financial statements and MD&A for the fiscal year ended September 30, 2008, and there are no future commitments for the purchase of capital equipment

Share capital

The Company has 39,340,694 common shares outstanding as at the date of this report. In addition, there are 2,628,500 options outstanding under the Company's stock option plan, details of which are included in the notes to the financial statements.

Related party transactions

There are no reportable related party transactions that occurred in the quarter being reported.

Risks and Uncertainties

IWG recognizes that certain risks are inherent in its business plan, which requires the Company to manage its affairs to minimize the impact of such risks to its operations.

Generally, the risks identified in the Company's annual management discussion and analysis for the fiscal year ended September 30, 2008, that relate to the business use aircraft markets, competitive position and intellectual property protection, have not changed from that reported previously.

Financial & Economic Conditions

Current world financial and economic conditions have had a short term direct impact on company deliveries to date. Industry forecasts of a weakening corporate jet market and reduced production rates in the second half of 2009 and into 2010 will possibly impact Company shipments in that period. IWG monitors the situation carefully by managing expenses, investments and cash resources with a view to mitigating risk from such downturn. Slower sales in the Company's traditional markets will in part be offset by increased sales initiatives into complimentary aviation markets.

Aircraft markets

The Company's primary customers are business use aircraft manufacturers, owners and operators. Such markets are cyclical over time although often differing from the cycles for commercial aircraft. In particular, the present world economic downturn is causing a slowdown for the industry.

Sales are made to customers on a standard or optional basis and are dependent upon the production rates and customization of new aircraft or the requirement for upgrading existing aircraft by owners. As a consequence, equipment and systems sales can fluctuate from period, although this may be offset by sales from new customers.

Foreign Exchange

The Company reports its financial results in Canadian dollars. However, the Company's sales are invoiced in U.S. dollars, which are offset to a limited extent by the portion of its product costs that are also in U.S. dollars. Generally, fluctuations in the Canadian to United States dollar exchange rate are recorded as transactions occur and adjusted at the end of the period that financial results are reported. The details of the Company's foreign exchange policy are included in the notes to the annual financial statements.

Consequently, fluctuations in the Canadian to U.S. dollar foreign exchange rates will impact sales revenue, gross margins and net earnings reported by IWG. With the shift in US/ Canada exchange rates in recent periods, this is an area of risk that has impacted the financial results of IWG. This impact has been mitigated to some degree by entering into short term foreign exchange contracts to hedge against fluctuating exchange rates for a portion of the Company's near term cash flow.

Financial Resources

The Company's operations and cash reserves have ensured that sufficient cash is available to fund current product development, capital expenditures and operations. This provides a base on which the Company can offset a decline in traditional product sales due to the current financial crisis with the introduction of new products or services and sales to new customers. Longer term growth in the aviation market and product engineering may require additional capital beyond that generated from operations.

Forward-looking statements

The Company's financial reports contain forward-looking statements that involve risks, and uncertainties. These forward-looking statements are based on current expectations of management and actual events may differ materially from current expectations.

Business outlook

Development activity pursued by IWG in recent years has assured that its water treatment products and systems are at the leading edge of aviation market requirements. The current world wide financial crisis is having an impact on the industry and Company and will continue to do so for the next year or two.

IWG, historically a developer of UV-based water treatment equipment for several niche markets has become a primary supplier of engineered water treatment units and systems for the aviation market. IWG's goal is to significantly grow its business as a provider of water systems and disinfection units to the aviation industry.

Other information

Additional information relating to the Company is available under the Company's name on SEDAR at www.sedar.com.