

International Water-Guard Industries Inc.
2006 Annual Report



ABOVE ALL,
WATER QUALITY





COMPANY PROFILE



For over 20 years, International Water-Guard has been improving the quality of water aboard aircraft - protecting both passengers and crew from the risk of waterborne illnesses. Today, we are the world's leading provider of flight-certified potable water treatment units and



innovative potable water system solutions. From corporate jets to privately registered airliners and military transports, IWG delivers clear, safe potable water to aircraft worldwide. IWG is the only company in the world with flight certified ultraviolet disinfection



equipment in serial production.



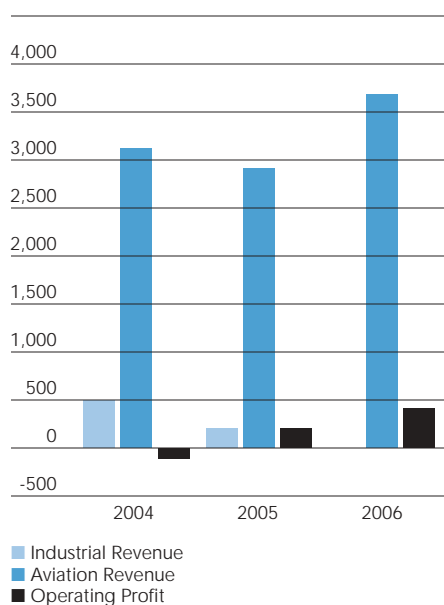
FINANCIAL OVERVIEW

(All items in dollars, except per share data)

Operations	2006	2005	2004
Total revenues	\$ 3,662,460	\$3,134,809	\$ 3,641,463
Earnings (loss) before special items	404,545	163,597	(126,979)
Net earnings (loss)	404,545	914,111	(3,961,291)
Cash flow from operations	259,528	(286,716)	(183,746)
Basic EPS	1.2¢	3.5¢	(21.2)¢
Fully diluted EPS	1.2¢	3.5¢	(21.2)¢

Financial position	2006	2005	2004
Net capital expenditures	\$ 107,791	\$ 15,834	\$ 1,207
Working capital	909,496	576,218	(1,370,085)
Total assets	1,505,304	1,212,922	1,162,044
Shareholder's equity	1,044,875	585,835	(1,323,520)
Common shares outstanding	33,549,694	33,302,194	20,481,194

Three Year Results
in thousands of dollars



Aviation Unit Shipments
as a percentage (average = 100%)

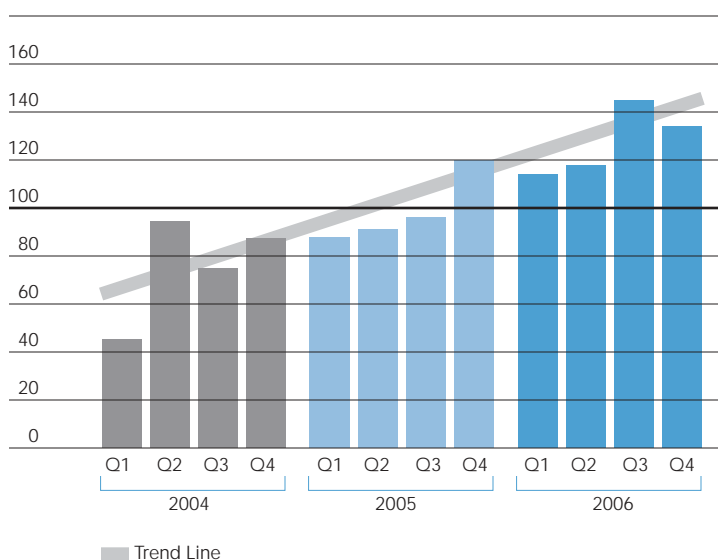


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IWG has a solid, and expanding core business supplying ultraviolet water treatment units to the corporate/VIP transport market. IWG water treatment units are factory installed by nearly all business jet manufacturers, including Bombardier, Dassault Falcon Jet, Gulfstream, and Raytheon.

IWG is aggressively marketing its revolutionary new design for a full aircraft water system: the patented Circulating Potable Water System (C-PWS™). A 'clean-sheet' design, the C-PWS offers a range of advantages over traditional designs, including low weight, high performance and freedom from in-flight freezing. The C-PWS has been installed on four types of Corporate/VIP aircraft, and is being offered to manufacturers for new aircraft programs.

IWG also views the world's airlines as the next market to conquer. Building on its credibility in the business jet market, IWG is actively pursuing a breakthrough into the huge airline industry. Current trends support this effort, as regulators, passengers, and media increasingly express concern about the quality of water served on commercial aircraft.

PRESIDENT'S MESSAGE

In this past year, IWG has shown itself to be a profitable, growing enterprise after the restructuring of 2005. As of September, we achieved eight successive profitable quarters, with income of \$400K on sales of \$3,700K for the year. Today, IWG is an established, stable supplier of unique water treatment products and systems to the corporate/VIP aviation industry.

Beyond these operating results, IWG is a vastly changed company looking to achieve strategic breakthroughs in markets that can multiply its size several fold. These are:

- > the supply of complete potable water systems to the corporate aviation market,
- > the supply of water treatment products, together with associated engineering, and to the Commercial Airline Market.

We have made steady progress towards entering these markets throughout the year. On the systems side, IWG received its Canadian patent for the Circulating Potable Water System (C-PWS™), adding to previously issued US patents. We are pleased to note that our first system retrofit has now been flying fault-free for five years.



In the airline water treatment market, Health Canada has followed the US Environmental Protection Agency in sampling a large number of aircraft, finding the same contamination problems in Canada as in the US. At IWG, we continue to recommend that an on-aircraft solution is the best response to water quality and safety issues.

Within our core business supplying the corporate/VIP aircraft market, we have achieved consistent growth during 2006. Of particular note, we signed a long term procurement agreement with Dassault Falcon Jet of France – the number three manufacturer of large business jets in the world. This is a significant vote of confidence in our capability to provide long term sales and support for major aircraft programs, and adds to the relationships established with Gulfstream and Bombardier.

Internally, the company continues to develop its infrastructure to support expanding business, and enable further market breakthroughs. Of special significance is the achievement of the AS9100 aerospace quality standard this year. This is a final stamp of approval on our capability as an aerospace supplier, adding to our many successful regulator and customer audits.

IWG staff have been working hard to achieve these objectives, as well as making extraordinary efforts to meet customer delivery and service requirements. Our production team has consistently met challenging targets, and our engineering team has been diligently working on product enhancements to ensure that IWG Water Treatment Units and Systems lead the industry in innovation and reliability.

As our balance sheet has strengthened, we have been able to open a \$500K line of credit with a chartered bank, a move that speaks to our improved financial stability.

We look forward to a challenging and successful fiscal 2007, and I wish to thank our staff, board and investors for their continuing efforts and support.

A handwritten signature in blue ink, which appears to read "D. Fox". The signature is fluid and cursive, written over a light blue horizontal line.

David C. Fox
President and CEO

A blue-tinted photograph showing the silhouettes of three people walking away from the camera through an airport terminal. They are carrying luggage, including suitcases and a handbag. The scene is reflected on a shiny floor. In the background, a white car is parked on the tarmac, and an airplane is visible in the distance. The overall mood is professional and focused.

Fresh clean water for
passengers and crew

COMPANY OVERVIEW

INTERNATIONAL WATER-GUARD IS THE MARKET LEADER IN SUPPLYING WATER TREATMENT EQUIPMENT TO THE WORLD'S LARGE CORPORATE JET MANUFACTURERS AND VIP AIRLINER CONVERSIONS. THE COMPANY'S MISSION IS TO IMPROVE THE QUALITY OF AIRCRAFT POTABLE WATER AND WATER SUPPLY SYSTEMS. IWG HAS EVOLVED FROM A MANUFACTURER OF COMMERCIAL ULTRAVIOLET WATER TREATMENT EQUIPMENT TO BE THE LEADING PROVIDER OF AIRCRAFT POTABLE WATER TREATMENT AND SYSTEMS SOLUTIONS.

The Company has delivered well over 1,000 of its water treatment units to date. They are currently offered as standard installations or options by the three largest corporate jet manufacturers: Bombardier Aerospace, Dassault Falcon Jet, and Gulfstream Aerospace Corporation. Most VIP airliner conversions are equipped with IWG products. IWG also maintains its focus on the world's aircraft completion centers, where both new production aircraft and older models are modified for use in corporate aviation.

The IWG Circulating Potable Water System (C-PWS™) has received U.S. and Canadian aviation regulatory approval, and is being offered to both manufacturers and aircraft owners and operators whose aircraft are at a completion center for final interior outfitting. The C-PWS has been patented (US Pat. 6,463,956 and 6,766,822, Canadian Pat. 2,345,995) and retrofitted on Airbus A310, Boeing BBJ, Bombardier Global Express, and Gulfstream GIV aircraft.

Building on its success in the corporate aviation market, IWG is placing emphasis on the commercial airlines. The quality of potable water on their aircraft has always been held in question – and now both the U.S. Environmental Protection Agency and Health Canada have demonstrated that biological contamination of potable water is widespread on commercial aircraft and is taking action through a regulatory review process.

Because of its more than twenty years of experience treating water on corporate, VIP, and military aircraft, no other company is as well positioned as IWG to take full advantage of this looming new demand.

COMPANY CAPABILITY

International Water-Guard is a Transport Canada approved manufacturing and maintenance organization, fully certified to the AS9100 aerospace quality management standard. The Company is also recognized by EASA (the European Aviation Safety Agency) as a certified maintenance organization. IWG operates from a new 11,000 sq ft facility with the ability to expand as growth is required.

The Company maintains its own product and system design team in house, and has extensive experience in designing and certifying water treatment products and systems to appropriate aviation standards. In addition, IWG's design team and quality organization have a good working relationship and long history with Transport Canada as our national certifying agency, and with the US Federal Aviation Administration.

The primary manufacturing conducted by IWG includes both the production and test of its Water Treatment Units and System components. This manufacturing process is supported by its Procurement, Quality Assurance, Testing and Engineering staff, and underlying processes and procedures.

IWG's customer service capability provides service to Original Equipment Manufacturers (OEM's), completion centers and owner/operators. Currently, IWG supports more than 1,000 water treatment units on various aircraft types, and circulating potable water systems flying on four different types of aircraft.



PRODUCTS

Aircraft Water Treatment Units

IWG's family of aircraft water treatment units were specifically designed to address the problem of water quality on aircraft, and can be installed by manufacturers as original equipment, or on existing aircraft as a retrofit. The units are fully flight qualified for use on corporate and commercial aircraft, and meet or exceed the rigorous standards required for certified aviation products.

IWG's aviation products must undergo a rigorous, lengthy, and costly certification process in both the United States and Canada resulting in the issuance of a "Supplemental Type Certificate," or "STC." IWG has been issued U.S. and Canadian STC's on its ultraviolet disinfection equipment, and on its new circulating potable water system. The cost and

difficulty of the certification process are significant barriers to entry for companies trying to compete in the highly regulated aviation market place.

IWG's original product, the NPS-A2 was designed in the late 1970's by a predecessor company acquired by IWG in 1989. This robust product continues to be produced to this day, and has recently undergone a design upgrade.

The NPS-A3 received its Transport Canada certification in 2000. The A3 was developed to meet our customer needs by fitting into smaller spaces and adding filtration to the disinfection capability.

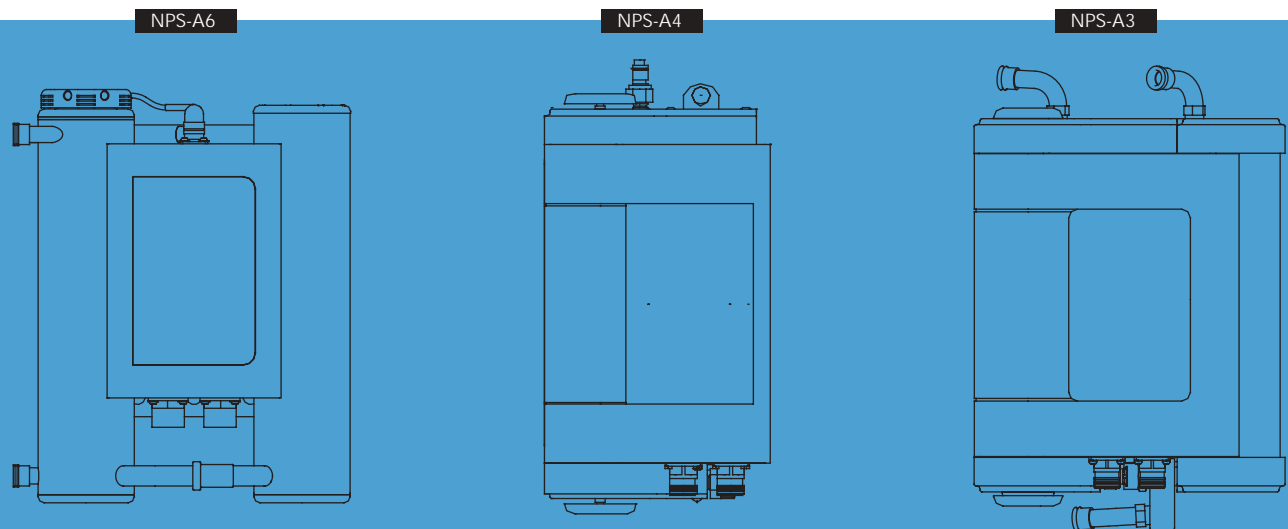
The NPS-A4 was developed as a derivative of the NPS-A3 for disinfection only, and is now a standard customer option on the Dassault Falcon Jet family.

The NPS-A6 is similar in concept to the NPS-A3 but is constructed of stainless steel and has a higher flow rate.

Aircraft Circulating Potable Water Systems

IWG's circulating potable water system was designed to address the major problems associated with the water systems currently in use on aircraft – water quality and freezing. It was also designed to weigh less and take up less space on aircraft than existing water systems. IWG's circulating potable water system (C-PWS™) occupies up to 60% less space and weighs up to 50% less than existing systems, depending on which aircraft model is considered. This saving provides more space and weight allocation for paying cargo, including passengers.

The C-PWS™ is comprised of aviation potable water treatment equipment to disinfect on-board potable water, pumps to circulate the water in the aircraft, tanks that conform to the shape of the aircraft (thereby saving space), piping and related distribution equipment and associated sensors and controls.



The essence of the new system design for aircraft is to constantly circulate potable water within the system, continually upgrading the quality of the water and essentially maintaining all parts of the system itself at a constant temperature.

Replacement Parts and Service

In addition to products and systems, the Company sells replacement parts (including spares) and services to customers with their own installed base of IWG systems and products.

TECHNOLOGY

IWG Water Treatment Units are designed to provide optimum water treatment to aircraft potable water. Many technologies are available for disinfection and water filtration, and IWG looks at all options in developing its flight certified products. The Company has found that the best technology for on-aircraft disinfection is ultraviolet light. It is possible to develop lightweight, robust equipment that meets rigorous aviation equipment standards with a variety of monitoring and fail-safe design features.

Disinfection by Ultraviolet Light

Scientists have known for nearly a century that ultraviolet light of certain wavelengths is an effective germicidal agent. Over the past thirty years, extensive experimental work has been carried out by researchers seeking to establish lethal ultraviolet dosages for a variety of pathogenic micro-organisms. As a result of this research, it is now possible to design ultraviolet irradiation equipment to meet virtually any disinfection requirement.

Ultraviolet radiation is actually high energy light. The wavelengths in the ultraviolet spectrum are too short for the human eye to resolve and ultraviolet light is therefore invisible. The ultraviolet spectrum ranges from 40 to 400 Nanometers (nm), with the

most effective spectral region for germicidal purposes being between 250 and 265 nm. At the proper intensity, UV light is fatal to all micro-organisms known to inhabit water.

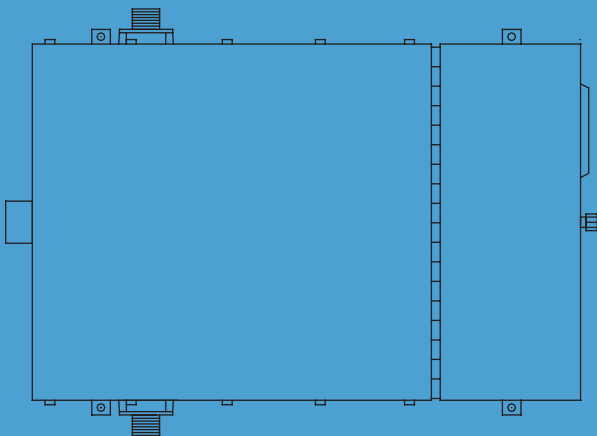
Mercury arc lamps generate the ultraviolet radiation for water disinfection, with low-pressure lamps being the most common and effective type. Low-pressure mercury arc lamps are efficient producers of ultraviolet rays in the 254 nm range lethal to microbes. This wavelength is very effective in the destruction of all known micro-organisms, including emerging health threats like E. Coli, Cryptosporidium, and Giardia. IWG also employs high intensity and amalgam ultraviolet lamps in specific applications requiring those types of technological solutions.

Studies show that DNA molecules in the nucleus of the organism absorb ultraviolet light. The organism is inactivated when sufficient dosage has been absorbed to modify the molecular structure in the DNA. It may not be killed instantly, but the scrambling of the genetic code in the nucleus prevents reproduction, rendering it non-viable and harmless to humans.

Filtration alone does not destroy waterborne pathogens; it merely removes unwanted material suspended in the water, such as sediment and chemicals like Chlorine. In fact filters can become a good breeding ground for micro-organisms if not changed regularly.

However, ultraviolet disinfection and filtration work extremely well together, since UV treatment is optimized by working on clear water to allow the light to penetrate to its maximum effect. The result of combining filtration with UV is water that is not only safe, but is clean and good-tasting.

NPS-A2



These units are fully flight qualified for use on corporate and commercial aircraft, and meet or exceed the rigorous standards required for certified aviation products.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Comments in this analysis should be read in conjunction with the comparative audited financial statements included in the annual report for the fiscal year ended September 30, 2006. The following discussion, and the information elsewhere in this report, is intended to provide the reader with a further understanding of the Company's business and factors underlying its financial results.

Overview

International Water-Guard Industries Inc. ("IWG") designs, manufactures, sells and services potable water treatment equipment and systems for international aviation customers. The principal technology embodied in IWG's products is irradiation by ultraviolet ("UV") light, with filtration, ancillary systems and controls designed by the Company.

In fiscal 2006 IWG achieved several important milestones following its transition to focus solely on the aviation water treatment market. These included:

- increasing sales of aircraft water treatment units by 32% over 2005 from a broader customer base,
- signing a long term procurement agreement with Dassault Falcon Jet for IWG water treatment units,
- completing a move to a new office and manufacturing facility,
- successfully completing an AS9100 aerospace quality system audit, and
- entering into a \$500,000 operating credit line agreement with the TD Commercial Bank while retiring a \$367,900 factoring loan.

During each quarter of fiscal years 2006 and 2005, the Company has been able to report earnings and positive cash flow from operations. The Company held cash of \$133,529 and had a \$500,000 available credit line at September 30th, 2006 to enable it to support continuing growth in sales and investment in product and market development.

Selected Annual Financial Information

Fiscal year ended September 30 (\$000's except per share amounts)	2006	2005	2004
Total revenues	\$ 3,663	\$ 3,135	\$ 3,641
Earnings (loss) from operations before special items	405	163	(127)
Gains on asset sales and debt settlements, less deferred cost and asset write-downs	-	751	(3,834)
Net income (loss)	\$ 405	\$ 914	\$ (3,961)
Earnings (loss) per share, basic and fully diluted	1.2¢	3.5¢	(21.2)¢
Dividends per share	Nil	Nil	Nil
Total assets	\$ 1,505	\$ 1,213	\$ 1,162
Long term debt (1)	\$ 71	\$ 25	\$ 29

(1) excludes current portion

The foregoing summary of annual financial results for the Company is extracted from the Company's annual audited financial statements, while a more detailed analysis of the latest statements follow. Additional information relating to the Company is also available under the Company's web site at www.water.aero or under its name on SEDAR at www.sedar.com.

Operating results

The Company reported revenue in fiscal 2006 of \$3,662,460, an increase of 17% above the prior year's results of \$3,134,809 which included industrial sales of \$197,263. Fiscal 2006 net earnings of \$404,545 compared to earnings from operations of \$163,597 (before special items) in the prior year.

Prior year net earnings of \$914,111 included special items of \$750,514 from the sale of the Company's industrial/commercial division assets and from the settlement of debts, less certain asset write-downs related to a move to a new manufacturing facility.

Revenue

Sales of the Company's aviation water treatment equipment and parts grew during the year by 28%. Prior year sales also included industrial sales of \$197,263 related to aquaculture and other water process applications, prior to the sale of this division on February 11, 2005, so that net year to year total sales increased by 17%.

Higher revenue was attributed to increased sales during the period, offset to some degree by the weaker U.S. dollar which served to reduce average sales prices in Canadian dollars by 7%.

Sales to customers in Canada represented 25% of the Company's sales with 75% exported, primarily to United States.

Gross margins

Total gross margin increased in 2006 due to a net increase in sales volume, while a change in sales mix and a slower rate of increase in non-variable costs resulted in a 6% improved margin percentage overall versus the prior year.

Operating expenses

Selling expenses of \$373,683 have increased by 24% over fiscal 2005. The Company has increased its marketing efforts through increased attendance at trade shows, advertising, sales aids and additional travel compared to the previous year.

Engineering and product development expenses charged to earnings of \$425,338 represents a 17% increase above the prior year. Increased engineering staff reflects further efforts by the Company to increase capacity and assure its product quality and features are the best available to meet customer needs. The Company completed its AS9100 / IS9001 certification during 2006. All product development costs have been expensed, and none has been capitalized.

General, administration, insurance, information technology and regulatory related expenses totaled \$864,836; a 27% increase from fiscal 2005, but still below historical levels. The current year increase was primarily attributed to higher investor relations, legal and insurance costs.

Capital expenditures

Capital expenditures of \$210,532 were incurred by the Company for leasehold and equipment costs at its new facility. This amount included net leasehold improvement costs of \$88,692, computer equipment and CAD systems of \$47,177 plus manufacturing and office equipment and furniture of \$74,663.

Quarterly information

The Company's sales were \$929,098 during the fourth quarter ended September 30th, 2006, compared to \$815,741 in the prior year for the same period. Earnings from operations of \$66,661 are reported versus earnings of \$50,035 a year earlier.

The summary information which follows is taken from the Company's quarterly and annual financial reports covering the last two fiscal years.

Fiscal year ended September 30
(\$000's except per share amounts)

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Year
Fiscal 2006:					
Sales	\$ 794	\$ 926	\$ 1,014	\$ 929	\$ 3,663
Earnings from operations before special items	72	114	152	67	405
Gains on asset sales and debt settlements, less asset write-downs	-	-	-	-	-
Net income	72	114	152	67	405
Earnings per share, basic and fully diluted	0.2¢	0.2¢	0.5¢	0.2¢	1.2¢
Fiscal 2005:					
Sales	\$ 771	\$ 825	\$ 723	\$ 816	\$ 3,135
Earnings from operations before special items	31	41	41	50	163
Gains on asset sales and debt settlements, less asset write-downs	-	740	11	-	751
Net income (loss)	31	781	52	50	914
Earnings (loss) per share, basic and fully diluted	0.0¢	3.1¢	0.2¢	0.2¢	3.5¢

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

Liquidity and capital resources

There have been several significant changes to the balance sheet during the fiscal year, mainly attributable to cash from operations, the completion of leasehold improvements and infrastructure at the Company's new location and reduction in the factoring loan.

Cash position

Cash reduced by \$221,275 to \$133,529, due to increases in working capital arising from sales growth and a reduction in the demand loan, financed in part by operating cash flow.

Cash flow from operations

Cash provided from operating activities, before non-cash operating working capital, was \$473,368 in 2006 (\$223,636 in 2005). Increases in customer receivables and inventory, offset by increased supplier payables, related to higher sales activity, utilized \$213,840 of this cash flow during the year.

Capital expenditures

As noted earlier, the Company expended a net amount of \$210,532, less \$102,741 financed by capital leases, to complete its leaseholds and furnishing of its new manufacturing facility during 2006. These expenditures were unusual in 2006 due to establishing new operating capacity, and would not be expected to reoccur to this level in the near future.

Cash utilized for net debt reduction

Repayment of the previous factoring loan utilized \$367,900 from cash reserves, as did loan and capital lease payments aggregating \$29,862. The Company entered into several capital leases, in total \$102,741, to finance equipment purchases, and issued common shares on exercise of warrants during the year for net proceeds of \$24,750.

Working capital position

The Company completed its 2006 fiscal year with \$909,496 in working capital, an improvement of \$333,278 from its working capital existing in the prior year. This improvement was primarily attributed to cash flow from operations offset by its investment in leasehold and equipment costs not financed. The Company has begun fiscal 2007 by operating on a cash positive basis and a cash reserve plus a credit facility available to finance its future growth.

Contractual obligations

The Company's operations facility is subject to a five and 1/2-year premises lease agreement until November 2010, with one renewal option. Other obligations of the Company are the capital lease agreements described in the notes to the September 30th financial statements.

Share capital

The Company has 33,549,694 common shares outstanding as at the date of this report. This number includes the 247,500 shares issued in the exercise of warrants related to a 2005 private placement of shares. In addition, there are 2,747,500 options outstanding under the Company's stock option. Further details of these options are included in the notes to the financial statements.

Risks and Uncertainties

IWG recognizes that certain risks are inherent in its business plan:

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. Sales are made 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.

Competition

Aviation - Potable Water Treatment Equipment

At this time, there are no other companies of significance supplying flight certified potable water disinfection equipment to the aircraft industry. It is expected that competition will come, although IWG intends to remain the dominant player in this field because of its significant head start, and by developing new products, pricing new and existing products as though competition exists, and continuing to seek customer input. IWG knows of no initiatives to introduce water treatment devices on new aircraft types. From time to time very small players attempt to penetrate the market, but none have been successful. A variety of water filters are used by some airlines and operators, but these do not actively treat and disinfect the water.

Aviation - Potable Water Systems

Currently, IWG is aware of several major full water systems providers in addition to itself. Their focus tends to be on the airliner/regional jet markets, whereas the Company currently places most of its attention on the corporate/VIP jet market. At least one of the companies competes directly in the corporate/VIP market. A variety of companies provide components to aircraft manufacturers for inclusion in their potable water system designs, but only IWG and these firms are offering aircraft manufacturers a full system solution as a kit

Intellectual Property

The Company has several patents on its aviation products and water treatment systems. In order to properly protect its intellectual property, the Company from time to time must assert its intellectual property against those who appear to be infringing it. In this respect, the Company on June 26th, 2006, filed a Statement of Claim against Bombardier Inc. claiming that a Canadian patent owned by the Company has been infringed by Bombardier. This action is currently in its early stages.

Foreign Exchange

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 financial statements.

The Company's sales are invoiced in U.S. dollars, which are offset to some extent by the portion of its product costs that are also in U.S. dollars. 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 been mitigated to some degree by carefully considered price increases.

The Company has not previously employed financial instruments to hedge its foreign exchange position because its past sales contracts generally have been short term. However, as the Company succeeds in securing longer-term production supply contracts, hedging of future foreign exchange requirements may be implemented.

Financial Resources

During fiscal 2005, important milestones were achieved in stabilizing the company's financial situation. Since that time, a positive cash flow has continued and sufficient cash is available to fund its current capital expenditures and level of operations, providing a base on which the company can continue its growth in the aviation market. Continuing growth may require additional capital beyond that generated from operations.

This is not an exhaustive list of the various risk factors that may be faced by the Company, but is a specific reference to the major risk factors addressed by the Company.

Internal controls over financial reporting

The Company maintains a system of internal controls and procedures over regular financial transactions, such that management is able to assure itself as to the adequacy of its financial reporting. As such, although the Company has limited staff and consequent restraints on the segregation of duties normally required, conscious effort is made to assure optimum segregation of responsibilities associated with key processes. In addition, there exists amongst senior management, familiarity with day to day transactions and mitigating controls consisting primarily of management review of financial information and approval of key transactions. These procedures are deemed sufficient to support its conclusions on the fair presentation of the Company's financial reports.

With continued growth in its operations, additions to staff and implementation of improved systems, internal controls over the Company's financial transactions will be further improved.

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 business outlook on the aviation sector is strong, and potable water quality is being perceived as an increasingly important issue, as evidenced by recent EPA and Health Canada reports.

International Water-Guard Industries Inc., 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.



Aircraft water can be clear,
but not simple

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of International Water-Guard Industries Inc. for the fiscal year ended September 30, 2006 and all other information in the annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. Management has also prepared the financial information presented elsewhere in the Annual Report and has ensured that it is consistent with that in the financial statements.

The Company maintains a system of internal control designed to provide reasonable assurance that financial information is reliable and accurate and that assets are safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility, principally through its Audit Committee. The Board appoints the Audit Committee, and all of its members are outside directors. The Audit Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the Annual Report, the financial statements and the external auditors' report.

KPMG LLP, the Company's external auditors, have audited the financial statements in accordance with Canadian generally accepted auditing standards on behalf of the shareholders to provide reasonable assurance that the financial statements are presented fairly, in all material respects, in accordance with Canadian generally accepted accounting principles. KPMG LLP have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Company's financial reporting.



David C. Fox
President, CEO and Director



C. Edward Butterfield
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of International Water-Guard Industries Inc. as at September 30, 2006 and 2005 and the statements of operations and deficit and cash flows for the years then ended. 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. 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 financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Vancouver, Canada
November 24, 2006

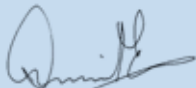
BALANCE SHEETS

September 30	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 133,529	\$ 354,804
Accounts receivable	755,321	508,776
Inventory (note 4)	388,844	282,922
Prepaid expenses	21,664	31,928
	1,299,358	1,178,430
Furniture and equipment (note 5)	205,946	34,492
	\$ 1,505,304	\$ 1,212,922
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 354,383	\$ 226,020
Factoring loan (note 6)	-	367,900
Current portion of capital lease obligations and loan payable (note 8)	35,479	8,292
	389,862	602,212
Capital lease obligations and loan payable (note 8)	70,567	24,875
	460,429	627,087
Shareholders' equity:		
Share capital (note 9)	7,533,289	7,508,539
Contributed surplus	90,319	60,574
Deficit	(6,578,733)	(6,983,278)
	1,044,875	585,835
	\$ 1,505,304	\$ 1,212,922

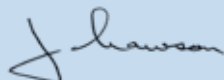
Contingencies and commitments (note 11)

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

STATEMENTS OF OPERATIONS AND DEFICIT

Years ended September 30	2006	2005
Sales	\$ 3,662,460	\$ 3,134,809
Cost of goods sold (note 4)	1,467,763	1,447,104
Gross profit	2,194,697	1,687,705
Expenses:		
Selling expenses	373,683	300,604
Research and development	425,338	362,948
General, administrative and occupancy	864,836	678,122
Stock-based compensation	29,745	18,098
Amortization	39,078	21,213
Interest	57,472	143,123
	1,790,152	1,524,108
Earnings from operations, before undernoted	404,545	163,597
Gains on settlement of notes and accounts payable (notes 7(a) and 7(b))	–	601,451
Gain on sale of commercial division assets (note 3)	–	164,063
Write-down of furniture and equipment	–	(15,000)
Net earnings	404,545	914,111
Deficit, beginning of year	(6,983,278)	(7,897,389)
Deficit, end of year	\$ (6,578,733)	\$ (6,983,278)
Earnings per share amounts:		
Basic	\$ 0.012	\$ 0.035
Diluted	0.012	0.035
Weighted average shares outstanding:		
Basic	33,407,297	25,772,764
Diluted	33,426,175	25,772,764

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Years ended September 30	2006	2005
Cash flows from (used by):		
Operations:		
Net earnings	\$ 404,545	\$ 914,111
Items not involving cash:		
Amortization	39,078	21,213
Compensation related to stock option plan	29,745	18,098
Accrued interest on notes payable	–	6,507
Accrued interest on shareholder loan	–	14,221
Gain on settlement of notes and accounts payable	–	(601,451)
Gain on sale of commercial division	–	(164,063)
Write-down of furniture and equipment	–	15,000
	473,368	223,636
Changes in non-cash operating working capital:		
Accounts receivable	(246,545)	63,691
Inventory	(105,922)	45,482
Prepaid expenses	10,264	(26,399)
Accounts payable and accrued liabilities	128,363	(593,126)
	259,528	(286,716)
Investments:		
Purchase of furniture and equipment	(107,791)	(15,834)
Proceeds on sale of commercial division	–	300,000
	(107,791)	284,166
Financing:		
Repayment of factoring loan	(367,900)	(81,600)
Repayment of capital lease obligations	(21,570)	–
Repayment of loan payable	(8,292)	–
Repayment of notes payable	–	(314,300)
Issuance of capital stock	24,750	688,418
	(373,012)	292,518
Increase (decrease) in cash and cash equivalents	(221,275)	289,968
Cash and cash equivalents, beginning of year	354,804	64,836
Cash and cash equivalents, end of year	\$ 133,529	\$ 354,804
Supplementary information:		
Interest paid	\$ 53,872	\$ 137,593
Non-cash transactions:		
Shares issued for settlement of notes payable	–	18,000
Shares issued for settlement of shareholder loan	–	270,728
Furniture and equipment purchased using capital lease obligations	102,741	–

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Years ended September 30, 2006 and 2005

1. Operations

The Company is incorporated under the Business Corporations Act (British Columbia). The Company's principal business operations relate to the development, manufacture and sale of aircraft water purification equipment and systems.

Operations in 2006 and 2005 were profitable and cash flow was positive. These financial statements are prepared on a going concern basis that assumes the Company will realize its assets and discharge its liabilities in the normal course of business.

2. Significant accounting policies

(a) Basis of presentation and operations:

The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles and in Canadian dollars, except where otherwise indicated. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Significant estimates used in the preparation of these financial statements primarily relate to the assessment of the valuation of accounts receivable, the net realizable value of inventory, and the realizability of future income tax assets. Actual results could differ from these estimates.

(b) Cash and cash equivalents:

Cash equivalents are highly liquid investments, such as term deposits with major financial institutions, having a term to maturity of three months or less at acquisition that are readily convertible to specified amounts of cash.

(c) Inventory:

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, and net realizable value. Raw materials inventory includes parts to be used in the manufacturing process. Work-in-process and finished goods inventory includes the cost of raw materials, direct labour, freight and other direct manufacturing costs.

(d) Furniture and equipment:

Furniture and equipment is stated at cost. Amortization using the declining-balance method on tooling and equipment is provided at a rate of 20% per annum and on computer equipment at 25% per annum. Leasehold improvements are amortized over the term of the lease on a straight-line basis.

(e) Impairment of long-lived assets:

The Company tests long-lived assets, such as furniture and equipment, for impairment when events or circumstances indicate that an impairment exists. Long-lived assets are impaired if the undiscounted cash flows expected to be earned from their use is less than their carrying amount, at which time, long-lived assets are written down to their fair value.

(f) Revenue recognition:

Revenue is recognized when persuasive evidence of a contractual arrangement exists, the products and services have been delivered to the customer and there are no significant vendor obligations remaining, the price is fixed or determinable, and collectibility is reasonably assured. Amounts received from customers in advance of satisfying all revenue recognition criteria are deferred.

(g) Government assistance:

The Company receives payments from time to time under various government assistance programs. These payments are recorded in the period during which the amounts are received or receivable. Payments received in respect of operating expenditures are deducted from expenses and in respect of capital expenditures are applied to reduce the cost of such additions. Under certain government assistance programs, the Company is required to pay future royalties to the government as a condition of receiving the grant (note 11(a)). Royalty payments are recognized and expensed when incurred.

(h) Research and development:

Research costs are expensed as incurred. Product development costs are expensed as incurred unless certain specified criteria for deferral have been met. The Company applies a stringent interpretation of these criteria, with the result that only costs associated with completing specific technologically feasible product applications having a continuing identifiable market with best estimates of net cash flows in excess of the carrying value of the costs incurred are deferred. Routine alterations to existing products are expensed as incurred.

2. Significant accounting policies (continued)

(i) Income taxes:

Income taxes are accounted for using the asset and liability method. Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any future tax asset when such benefits are not expected to be realized.

(j) Stock-based compensation plans:

The Company has a stock-based compensation plan, which is described in note 9(c).

The Company accounts for stock-based compensation related to stock options granted to employees and directors using the fair value method, and recognizes such stock-based compensation in results from operations over the vesting period.

(k) Earnings per share:

Earnings per share amounts have been calculated based on the weighted average number of shares outstanding. Fully diluted per share amounts have been calculated using the treasury stock method, which takes into account the dilutive effect of outstanding warrants and options. Securities such as stock options and warrants are included in the calculation of diluted per share amounts only if the market price of the underlying common shares exceeds the exercise price.

(l) Foreign exchange translation:

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rates of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates of exchange. Revenue and expenses are translated into Canadian dollars at the rates of exchange in effect at the dates of the transactions. Gains or losses arising from foreign exchange translation are included in the results of operations. For the year ended September 30, 2006, foreign exchange losses included in net earnings totaled \$35,533 (2005 - gains of \$22,849).

3. Disposal of commercial division:

The Company disposed of all of the assets of its commercial division in February 2005, including inventory and furniture and equipment with a book value of \$95,212 and \$20,715, respectively, for total consideration of \$300,000.

4. Inventory:

	2006	2005
Raw materials and work-in-process	\$ 256,590	\$ 201,080
Finished goods	132,254	81,842
	<u>\$ 388,844</u>	<u>\$ 282,922</u>

Cost of goods sold is determined as follows:

	2006	2005
Opening inventory	\$ 282,922	\$ 423,626
Manufacturing costs:		
Parts	874,394	661,497
Direct labour, freight and other	294,008	335,416
Manufacturing overhead	405,283	309,487
	<u>1,573,685</u>	<u>1,306,400</u>
Available for sale	1,856,607	1,730,026
Closing inventory	388,844	282,922
Cost of goods sold	<u>\$ 1,467,763</u>	<u>\$ 1,447,104</u>

5. Furniture and equipment:

	2006	2005
Tooling	\$ 3,877	\$ 3,877
Manufacturing and distribution equipment	45,085	40,418
Furniture and office equipment	263,155	152,198
Leasehold improvements	88,692	-
	400,809	196,493
Accumulated amortization	(194,863)	(162,001)
	\$ 205,946	\$ 34,492

As at September 30, 2006, furniture and equipment with a cost of \$102,741 (2005 - nil) and a net book value of \$86,517 (2005 - nil) is held under capital lease.

6. Bank credit lines and factoring loan:

In May 2006, the Company has entered into an agreement for a \$500,000 operating loan credit facility with The Toronto-Dominion Bank. Amounts drawn on the facility bear interest at bank prime plus 1.5% and are secured by a general security agreement on the Company's assets with normal covenants and margin requirements. At September 30, 2006, no amounts have been drawn on the available credit facility.

In 2005, the Company had a credit facility agreement with a private company to fund current working capital requirements, which facility provided for maximum advances of US\$350,000 (CDN\$445,000). The facility allowed the Company to sell accounts receivable on a with-recourse basis. Outstanding amounts were repayable on demand, bore interest at 2.75% per month and were secured by accounts receivable and other assets of the Company. During 2006, the remaining amount due under the factoring loan was retired.

7. Settlement of notes and accounts payable:

During the year ended September 30, 2005, the Company settled the remaining principal and interest owed under certain promissory notes, then totaling \$720,510, for cash of \$300,878 and 225,000 common shares valued at \$18,000. The Company recognized a total gain on settlement of these notes payable of \$401,632 during the year ended September 30, 2005.

Also in 2005, the Company settled accounts payable totaling \$491,371 for cash of \$291,552 and recognized a gain of \$199,819 on settlement.

8. Capital lease obligations and loan payable:

	2006	2005
Obligations under capital leases	\$ 81,171	\$ -
Loan payable	24,875	33,167
	106,046	33,167
Current portion	35,479	8,292
	\$ 70,567	\$ 24,875

The Company entered into several capital lease agreements to acquire equipment for its new facility. These lease obligations have terms from 27 to 53 months, with interest rates ranging from 2.3% to 9.7% and averaging 6.3%. Each lease includes a purchase options approximating 10% of the equipment cost prior to the completion of the lease period. The present value of the lease obligations are recorded as a liability, with the current portion included in current liabilities.

8. Capital lease obligations and loan payable (continued)

The capital lease obligations require the following minimum annual payments during respective fiscal years:

2007	\$	36,333
2008		26,326
2009		21,826
2010		5,391
2011		998
		90,874
Amount representing interest		(9,703)
	\$	81,171

During 2002, the Company received funds from Technology Partnership Canada ("TPC"). The loan is non-interest bearing and repayable in eight equal annual installments. Interest at TPC's prescribed rates plus 300 bonus points is charged on late payments.

9. Share capital:

(a) Authorized:

Unlimited number of common shares without par value
 Unlimited number of preference shares without par value

(b) Issued common shares:

	Number of shares	Amount
Balance, September 30, 2004	20,481,194	\$ 6,530,913
Issued for cash in private placement of common shares, net of issue costs	9,187,900	686,018
Issued for settlement of shareholder loan (note 10(a))	3,384,100	270,728
Issued for settlement of a note payable (note 7(a))	225,000	18,000
Issued for cash on exercise of options	24,000	2,880
		7,508,539
Balance, September 30, 2005	33,302,194	7,508,539
Issued for cash on exercise of warrants	247,500	24,750
		7,533,289
Balance, September 30, 2006	33,549,694	\$ 7,533,289

On May 5, 2005, the Company completed a private placement of 12,572,000 common shares at a price of \$0.08 per share for gross proceeds of \$1,005,760. This private placement consisted of 9,187,900 shares issued for cash and 3,384,100 shares issued for settlement of a shareholder loan. In addition, 320,000 finder's warrants were issued as a finder's fee, exercisable at \$0.10 per share for a period of one year after closing.

(c) Stock options:

The Company, from time to time, grants stock options to employees, directors, officers and certain consultants under the Company's stock option plan. The maximum amount of options available for issue is 3,464,000 common shares. These stock options are granted at the discretion of, and have terms and conditions as directed by the Board of Directors. Stock options generally vest over a period of eighteen months following the date of grant.

A summary of the status of the Company's stock option plan as at September 30, 2006 and 2005 and changes during the years ending on those dates is presented below:

	2006		2005	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	2,200,000	\$ 0.13	1,930,000	\$ 0.14
Granted	350,000	0.09	530,000	0.10
Exercised	–	–	(24,000)	(0.10)
Cancelled or expired	(200,000)	(0.15)	(236,000)	(0.19)
Outstanding, end of year	2,350,000	\$0.12	2,200,000	\$ 0.13
Options exercisable, end of year	2,040,000	\$0.12	1,648,000	\$ 0.13

Stock options outstanding and exercisable at September 30, 2006:

Number of stock options outstanding	Options exercisable	Exercise price	Weighted average remaining contractual life
580,000	580,000	0.18	7.3 months
460,000	368,000	0.12	20.0 months
890,000	890,000	0.10	10.1 months
220,000	80,000	0.09	30.4 months
200,000	122,000	0.08	22.0 months
2,350,000	2,040,000		14.3 months

During the year ended September 30, 2006, the Company recognized \$29,745 (2005 - \$18,098) in stock-based compensation related to options granted.

The compensation expense was calculated using the Black-Scholes option pricing model assuming a weighted average risk-free interest rate of 3.57% (2005 - 2.98%), a dividend yield of 0.0%, a weighted average expected volatility of 78.0% (2005 - 84.8%) and expected life of stock options of 2.25 years (2005 - 2.25 years). The weighted average grant date fair value of options granted during the year ended September 30, 2006 was \$0.04 (2005 - \$0.05).

(d) Share purchase warrants:

Under the private placement of common shares completed on May 5, 2005 (note 9(b)), finder's warrants to purchase 320,000 common shares, exercisable at \$0.10 each, were issued. On April 28, 2006, 247,500 warrants were exercised for proceeds of \$24,750 and the remaining warrants expired without being exercised. As at September 30, 2006, no warrants are outstanding.

10. Related party transactions:

(a) Loan payable:

On May 5, 2005, a shareholder loan of \$250,000 of principal and accrued interest of \$20,728 was applied by the holder as partial payment for the subscription of common shares (note 9(b)).

(b) Other:

During the year ended September 30, 2006, the Company paid nil (2005 - \$48,685) to a company owned by an officer and shareholder for the provision of services. The services provided were in the normal course of business and valued at amounts agreed to by the parties.

11. Contingencies and commitments:

(a) The Company has entered into an agreement with Technology Partnerships Canada ("TPC"), whereby TPC will assist in the funding of the development of its NPS-A3 potable water treatment system to the extent of the lesser of 30% of eligible costs and \$235,845. As a condition of this agreement, the Company has agreed to pay TPC a royalty of 2% of the gross revenue from the sale of NPS-A3 systems until September 30, 2007, or if the royalty payments to that date do not exceed \$365,180, then until the limit of \$365,180 is reached. Accumulated royalties paid or payable to September 30, 2006 totaled \$219,235 (2005 - \$162,179).

An agreement has also been entered into with the National Research Council Canada ("NRC/IRAP"), whereby NRC/IRAP assisted in the funding to further develop the Company's potable water systems for certain aircraft (C-PWS™) in the amount of \$495,000. As a condition of this agreement, the Company has agreed to pay NRC/IRAP a royalty of 2% of the Company's gross revenue earned each quarter from April 1, 2005 to June 30, 2005 and then from July 1, 2007 through June 30, 2011, or if the royalty payments to that date do not equal the maximum of \$742,500 payable, then until the earlier of total payments of \$742,500 or the date of April 1, 2014 is reached. Accumulated royalties paid or payable to September 30, 2006 totaled \$30,962 (2005 - \$30,962).

(b) The Company entered into a long-term operating lease for premises expiring November 30, 2010. The future annual lease payments, exclusive of property taxes and expenses directly payable by the Company:

2007	\$	102,178
2008		100,850
2009		104,325
2010		105,300
2011		17,550
	\$	430,203

12. Income taxes:

Income tax recovery attributable to losses differs from the amounts computed by applying the combined Canadian federal and provincial income tax rate of 34.1% (2005 - 35.24%) to loss before income taxes as follows:

	2006	2005
Net earnings before income taxes	\$ 404,545	\$ 914,111
Expected income tax recovery	\$ 137,950	\$ 322,133
Tax effect of:		
Change in valuation allowance	(231,640)	(381,831)
Change in tax rate	53,753	79,278
Other	39,937	(19,580)
Income tax expense (recovery)	\$ -	\$ -

The tax effects of temporary differences that give rise to future tax assets are presented below:

	2006	2005
Future income tax assets:		
Non-capital losses carried forward	\$ 1,281,709	\$ 1,478,223
Furniture and equipment	62,855	89,927
Scientific research and development expenditures	119,477	123,835
Share issue costs	9,676	13,372
Total gross future income tax assets	1,473,717	1,705,357
Valuation allowance	(1,473,717)	(1,705,357)
Net future income tax assets	\$ -	\$ -

In assessing the ability to realize future income tax assets, management considers whether it is more likely than not that some or all of the future tax assets will be realized. The ultimate realization of the future tax assets is dependent on the generation of taxable income during periods in which the temporary differences reverse. As at September 30, 2006, evidence does not yet exist to support a conclusion that it is more likely than not that the future income tax assets will be realized, a valuation allowance has been recorded against all of the future tax assets.

The Company has non-capital loss carry forwards of approximately \$3,895,800 which will expire at various dates through 2011. The Company also has Scientific Research and Development expenditures of approximately \$363,152 which are available to offset taxable income indefinitely.

13. Financial instruments:

(a) Fair values:

Financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, loan payable and capital lease obligations, the carrying values of which are considered by management to approximate their fair values due to their ability for prompt liquidation, short-term to maturity or market rates of interest.

(b) Credit risk:

The Company is exposed to credit risk only with respect to uncertainties as to the timing and collectibility of accounts receivable. At September 30, 2006, six customers (2005 - six) represented approximately 94% (2005 - 95%) of accounts receivable. The Company mitigates credit risk through regular credit assessment and collection policies.

(c) Currency risk:

At September 30, 2006, 100% (2005 - 100%) of accounts receivable and 16% (2005 - nil) of liabilities are denominated in United States dollars. The Company has not entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations.

14. Segmented information:

The Company's principal business operations relate to the development, manufacturing and sales of water treatment systems and, accordingly, the Company has only one reportable segment. In 2006, sales to six customers (2005 - six customers) represent approximately 88% (2005 - 82%) of total revenue. 100% of the Company's furniture and equipment are located in Canada. In 2006, approximately 25% (2005 - 25%) of sales revenue was generated by customers in Canada and 75% (2005 - 75%) by customers in other countries, primarily the United States.

DIRECTORS AND OFFICERS

John J.D. Lawson - Chairman of the Board

John Lawson began his aviation career with 18-years in the Canadian Armed Forces, where he was a Flight Instructor, Fighter Pilot, and Test Pilot. He is a graduate of the Royal Military College and the University of Toronto, where he received an Honours BAsC in electrical engineering. He left the Air Force in 1975 with the rank of Lieutenant Colonel to pursue a career in business. Mr. Lawson retired in 2001 as President of Bombardier Business Aircraft Sales with responsibility for the worldwide marketing and sales of all Learjet and Bombardier corporate jets. Previous to that, he held several positions within the Bombardier group, including President of Canadair Business Aircraft, Vice-President, Marketing and International Sales, and Vice-President of Challenger Product Support. He is currently a Director of NAV CANADA.

David Fox - President and CEO

David Fox has many years of business development and aerospace experience and holds both an Aeronautical Engineering Degree from the University of London and an MBA from the London Business School. From 1989 to 1995, he was Vice President and General Manager of Airshow Canada, a major international aerospace tradeshow. He served as IWG's Vice President, Aerospace Business from 1996 to 1998. Until May 2004, David was Vice President, Business Development for Vortek Industries Ltd., a supplier of high-energy optical systems to the aerospace /materials testing and semiconductor industries.

Michael A. Evans - Director

Michael Evans is a principal of Evans & Evans, Inc., a leading Canadian boutique investment banking firm with offices in Canada and the U.S. For the past 17 years Michael has raised millions of dollars for numerous clients through private placements, public offerings, and debt issuances. He has also advised on many merger and acquisition transactions and has originated transactions both for purchasers and sellers. He holds a Bachelor of Business Administration degree from Simon Fraser University, a Master's degree in Business Administration from the University of Portland, and the Chartered Financial Analyst and Chartered Business Valuator designations. He is a member of the Association of Investment Management and Research, the Canadian Institute of Chartered Business Valuators and a Candidate Member of the American Society of Appraisers.

Bruce Gowan - Director

Mr. Gowan, a Chartered Accountant, is the former Chief Financial Officer at Magellan Aerospace, and continues as a member of the company's Board of Directors, where he serves on the Audit Committee and the Human Resources and Compensation Committee. He is also Chairman of the Board for Lakeland Holdings Ltd., a power generation and power distribution company.

Bruce G. MacCoubrey - Director

Bruce MacCoubrey completed a highly successful career with Air Canada as Vice-President, Strategic Business Services and Chief Purchasing Officer in 2003. He is now consulting in the aviation industry. Bruce is a member of the Order of Engineers of Quebec and holds a Masters Degree in Business Administration from McGill University. He began working for Air Canada in 1969 and held senior positions in Cargo, Airport Operations Planning, Purchasing & Supply, and Component Maintenance. In 2000 he was appointed a Vice-President and Chief Purchasing Officer. He has also been Chairman of the Board for AeroXchange, and Board Member for Airliance Materials, and Acetec. He was also Chairman of the Star Alliance Purchasing Committee, and Chairman of the Air Transport Association Materials Management Committee.

Kenneth A. Mellquist - Director

Mr. Mellquist is a lawyer by training whose expertise is in the establishment and organization of new enterprises, intellectual property protection and negotiation of collaboration, licensing, joint venture and technology transfer agreements. He was a former President and Senior Vice-President of Corporate Affairs for Angiotech Pharmaceuticals Inc, and was part of a management team that oversaw Angiotech's growth to a market capitalization of approximately US\$600M.

Michael J. Piscatella - Director

Mr. Piscatella has over thirty years of aerospace business experience. He currently is the President of Industrial Tube Corporation, President of Electrofilm Manufacturing Company, and the VP of Business Development for Hartzell Propeller Inc., subsidiaries of Charter Aerospace Inc. His previous experience includes nine years with Goodrich Corporation, a period in which he rose to become Group President, Aerostructures & Aviation Technical Services, and twenty-five years with Textron Lycoming, culminating with the position of Director, International Business. He is also a member of the President's Advisory Board for Embry-Riddle Aeronautical University.

Gerald P. Eiers - General Manager

Gerald's experience with both large and small manufacturing firms gives him a strong background in marketing and sales. In addition, he provides leadership to IWG's procurement and manufacturing teams and oversees the company's administrative functions, including: human resources, information technology and facility development. He joined IWG in 1997, and until September 2001 was responsible for the company's accounting and administrative functions.

C. Edward Butterfield - Chief Financial Officer and Corporate Secretary

Ted has significant experience in managing the financial and business operations of public companies. Prior to joining IWG in September 2000, he served as CFO with a public aerospace component manufacturer. He has also served as the senior financial officer of several other public and private companies in the manufacturing, distribution and financial sectors.

CORPORATE INFORMATION

HEADQUARTERS

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CAPITAL STRUCTURE

(as at January 9, 2007)

Authorized:

an Unlimited number of
Common Shares
and an Unlimited number
of Preference Shares

Issued:

33,599,694 Common Shares

STOCK EXCHANGE

TSX Venture Exchange
Trading Symbol: "IWG"

AUDITORS

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777 Dunsmuir Street
Vancouver BC V7Y 1K3

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3rd Floor, 510 Burrard Street
Vancouver BC V6C 3B9

BANK

TD Commercial Banking
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Burnaby, B.C. V5C 5J3

LEGAL COUNSEL

Gowling Lafleur Henderson LLP
Suite 2300, Four Bentall Centre
1055 Dunsmuir Street
Vancouver BC V7X 1J1



ANNUAL GENERAL MEETING

The Company's Annual General Meeting of shareholders will be held at 2:30 p.m. on Wednesday, March 14, 2007, at The Sutton Place Hotel 845 Burrard Street, Vancouver, BC.



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