



INTERNATIONAL
Water·Guard

Interim Financial Statements of

**INTERNATIONAL WATER-GUARD
INDUSTRIES INC.**

Six months ended March 31, 2008

Interim Financial Statements of

INTERNATIONAL WATER-GUARD INDUSTRIES INC.

Notice of no auditor review of interim financial statements to March 31, 2008

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

	March 31 <u>2008</u>	September 30 <u>2007</u>
ASSETS		
Current assets:		
Cash	\$ 86,361	\$ 438,932
Accounts receivable	616,354	721,278
Inventory	586,983	642,232
Prepaid expenses	<u>84,433</u>	<u>37,969</u>
	1,374,131	1,840,411
 Furniture and equipment	 262,610	 219,291
 Future income tax assets	 <u>523,300</u>	 <u>427,000</u>
	 <u>\$ 2,160,041</u>	 <u>\$ 2,486,702</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 248,827	\$ 425,072
Current portion of capital lease obligations and loan	<u>38,601</u>	<u>28,013</u>
	287,428	453,085
 Capital lease obligations and loan payable	 <u>46,823</u>	 <u>42,685</u>
	<u>334,251</u>	<u>495,770</u>
 Shareholders' equity:		
Share capital	7,622,255	7,607,553
Contributed surplus	157,572	153,964
Deficit	<u>(5,954,037)</u>	<u>(5,770,585)</u>
	1,825,790	1,990,932
	<u>\$ 2,160,041</u>	<u>\$ 2,486,702</u>

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

On behalf of the Board:

"J. D. Lawson" Director

"D. C. Fox" Director

INTERNATIONAL WATER-GUARD INDUSTRIES INC.
STATEMENTS OF OPERATIONS AND DEFICIT
Six months ended March 31

	Three months ended March 31		Six months ended March 31	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Sales	\$ 856,064	\$ 1,149,646	\$ 1,710,447	\$ 2,163,330
Cost of goods sold	<u>427,248</u>	<u>453,913</u>	<u>924,236</u>	<u>889,940</u>
Gross profit	<u>428,816</u>	<u>695,733</u>	<u>786,211</u>	<u>1,273,390</u>
Expenses:				
Selling expenses	82,258	80,709	124,750	162,439
Engineering and product development	194,313	105,847	349,008	218,448
General & administration	285,886	313,694	547,155	537,678
Stock based option compensation	4,101	4,251	8,331	13,706
Amortization	15,933	13,680	30,747	25,588
Interest & bank charges	<u>3,385</u>	<u>1,088</u>	<u>5,971</u>	<u>3,788</u>
Total Expenses	<u>585,876</u>	<u>519,268</u>	<u>1,065,962</u>	<u>961,648</u>
Earnings (loss) before income taxes	(157,060)	176,465	(279,751)	311,742
Income tax recovery	<u>54,300</u>	<u>-</u>	<u>96,300</u>	<u>-</u>
Net earnings (loss) for the period	(102,760)	176,465	(183,451)	311,742
Deficit, beginning of period	<u>5,851,277</u>	<u>6,443,456</u>	<u>5,770,586</u>	<u>6,578,733</u>
Deficit, end of period	<u>\$ 5,954,037</u>	<u>\$ 6,266,991</u>	<u>\$ 5,954,037</u>	<u>\$ 6,266,991</u>
Earnings per share amounts:				
Basic	<u>(0.3) ¢</u>	<u>0.5 ¢</u>	<u>(0.5) ¢</u>	<u>0.9 ¢</u>
Diluted	<u>(0.3) ¢</u>	<u>0.5 ¢</u>	<u>(0.5) ¢</u>	<u>0.9 ¢</u>
Weighted average shares outstanding				
Basic	<u>34,141,783</u>	<u>33,599,694</u>	<u>34,125,238</u>	<u>33,571,638</u>
Diluted	<u>34,660,821</u>	<u>33,834,457</u>	<u>34,594,738</u>	<u>33,703,243</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
Six months ended March 31

	Three months ended March 31		Six months ended March 31	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Cash flows from (used by):				
Operating activities:				
Net earnings for the period	\$ (102,760)	\$ 113,642	\$ (183,451)	\$ 185,764
Items not involving cash -				
Income tax asset recovery	(54,300)		(96,300)	
Compensation related to stock option plan	4,101	5,703	8,331	\$ 13,175
Amortization	<u>15,933</u>	<u>11,597</u>	<u>30,747</u>	<u>13,444</u>
	(137,026)	130,942	(240,673)	212,383
Changes in non-cash operating working capital:				
Accounts receivable	125,260	(126,513)	104,923	(82,787)
Inventory	31,517	24,346	55,249	27,518
Prepaid expenses	(9,179)	2,492	(46,464)	8,389
Accounts payable and accrued liabilities	<u>(94,286)</u>	<u>48,559</u>	<u>(176,246)</u>	<u>41,967</u>
Cash flow from (used in) operations	<u>(83,714)</u>	<u>79,826</u>	<u>(303,211)</u>	<u>207,470</u>
Investing activities:				
Purchase of furniture and equipment	<u>(23,508)</u>	<u>(98,888)</u>	<u>(39,231)</u>	<u>(103,571)</u>
Financing activities:				
Proceeds (repayment) of demand loan	-	(147,000)	-	(217,400)
Issuance of capital stock	9,979	-	9,979	
Repayment of capital lease obligations and note payable	<u>(7,918)</u>	<u>-</u>	<u>(20,108)</u>	<u>(4,146)</u>
	<u>2,061</u>	<u>(147,000)</u>	<u>(10,129)</u>	<u>(221,546)</u>
Increase (decrease) in cash	(105,161)	(166,062)	(352,571)	(117,647)
Cash, beginning of period	<u>191,522</u>	<u>338,754</u>	<u>438,932</u>	<u>354,804</u>
Cash, end of period	<u>\$ 86,361</u>	<u>\$ 237,157</u>	<u>\$ 86,361</u>	<u>\$ 237,157</u>
Supplemental information:				
Non-cash purchase of equipment using capital lease obligation	\$ -	\$ -	\$ 34,835	\$ -

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

Six months ended March 31

	Three months ended March 31		Six months ended March 31	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Opening inventory	\$ 618,500	\$ 363,016	\$ 642,232	\$ 388,844
Manufacturing costs:				
Materials	154,754	230,342	398,181	427,920
Direct labour, freight and other	105,174	85,565	204,750	182,962
Manufacturing overhead	<u>135,803</u>	<u>129,122</u>	<u>266,056</u>	<u>244,346</u>
Cost of goods available for sale	1,014,231	808,044	1,511,219	1,244,072
Closing inventory	<u>586,983</u>	<u>354,131</u>	<u>586,983</u>	<u>354,131</u>
Cost of goods sold	<u>\$ 427,248</u>	<u>\$ 453,913</u>	<u>\$ 924,236</u>	<u>\$ 889,940</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 March 31, 2008

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, 2007.

Certain comparative figures have been reclassified to conform to the presentation of amounts in the current fiscal period.

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	\$ 87,668
Furniture and office equipment	351,894
Leasehold improvements	<u>101,072</u>
	540,634
Accumulated amortization	<u>(278,024)</u>
Net book value	<u>\$ 262,610</u>

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

Obligations under capital leases	\$68,841
Loan Payable	<u>16,583</u>
	85,424
Current portion	<u>38,601</u>
Long term portion	<u>\$46,823</u>

The company's capital lease agreements have financed equipment acquired for the growth in operations. These lease obligations have terms from 14 to 60 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 March 31, 2008 includes an unlimited number of both common shares and preferred shares, of which 34,210,694 common shares and no preferred shares were issued and outstanding.

b) Under the Company's stock option plan, as of March 31, 2008 there were 2,350,500 options outstanding held by directors, officers and employees. These options are exercisable at various dates to January 8, 2013, as follows:

Exercise Price Per Share	Number Outstanding	Average Remaining Life in Years	Number Exercisable at March 31st
\$0.21	580,000	49.9	580,000
\$0.145-0.15	335,000	47.4	311,000
\$0.13	390,000	58.1	0
\$0.10-0.115	555,500	12.3	486,000
\$0.075 - \$0.09	<u>490,000</u>	<u>13.5</u>	<u>450,000</u>
Total	2,350,500	34.5	1,827,000

5. Commitments and contingencies:

Prior to March 31st, the Company contracted for a portion of its future short term US dollar exchange requirements through to June 30th. No material gain or loss has been incurred to date.

Contractual obligations of the Company are substantially unchanged from those described within the notes to the fiscal 2007 audited financial statements.



INTERNATIONAL WATER-GUARD INDUSTRIES INC.

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

Second Quarter Ended

March 31, 2008

Dated: May 8, 2008

INTERNATIONAL WATER-GUARD INDUSTRIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS Second Quarter to March 31, 2008

Overview

International Water-Guard Industries Inc. ("IWG") designs, manufactures, sells and services 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.

Comments in this analysis should be read in conjunction with the comparative interim financial statements for the six months ended March 31 2008. The following discussion, and the information elsewhere in this report, 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 such 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 expected decrease in Company revenue for the first quarter of financial 2008 continued into the second quarter of the year, although there is an anticipation of improvement in the last half. In both the current quarter and the six month period, the Company has accelerated its new product development efforts to meet an emerging need for complementary products in aircraft water treatment and systems. The related expenditures have reduced the Company's net income in this period, which will continue for the balance of the fiscal year.

The Company reported sales during the second quarter in fiscal 2008 of \$856,064, a decrease of 25% from the same quarter of the previous year. Second quarter net loss was \$102,760 compared to net earnings of \$176,466 in the prior year's second quarter.

Total equipment and service revenues were 13% less, year to date than in fiscal 2007 and the decrease in the U.S. dollar vs. a year earlier reduced the average sales prices in Canadian dollars by 12%.

Six month sales to March 31st were \$1,710,447 compared to \$2,163,330 in the prior year. The six month net loss was \$183,451 compared to earnings of \$311,742 a year earlier.

What has become common to Canadian exporters during the middle of 2007 is the sudden impact of the stronger Canadian dollar on the Company's sales and earnings until adjustments could be implemented.

The results for the quarter provide 0.3¢ net loss per share in the current quarter (0.5¢ year to date), compared to net earnings of 0.5¢ per share in the second quarter of the prior year (0.9¢ 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 second quarter. Service and parts revenue, however, continues to increase with a greater install base to offset a short term lag in equipment sales from some customers. On a period to period basis, the reduction in the US dollar exchange rate has reduced comparative sales values by approximately 12 – 14%, offset in part by price increases.

Apart from the impact of the lower US dollar value, margin rates on equipment and parts sales, remain generally consistent from period to period being reported, and in line with sales.

Operating expenses

Selling expenses of \$82,258 for this quarter were similar to a year earlier. The first quarter's costs had been reduced in that the Company's annual presence at the 2007 NBAA trade show occurred prior to the beginning of this fiscal year.

Engineering and product development expenses of \$194,313 in the second quarter, is an increase of 84% due to an acceleration of new product development efforts during this fiscal year for complementary products in aircraft water treatment.

General, administration and information technology expenses totaled \$289,987, a 9% decrease from the same quarter in the prior year, with reductions in professional fees offsetting increases in compensation.

The increase in amortization is related to capital expenditures in the first quarter of fiscal 2008, which was financed through a capital lease..

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 2008		Fiscal year 2007				Fiscal year 2006	
	Mar 31	Dec 31	Sept 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Sales	\$856	\$854	\$1,279	\$1,043	\$1,149	\$1,013	\$929	\$1,014
Net income (loss)	(\$103)	(\$81)	\$405	\$91	\$176	\$135	\$67	\$152
Earnings per share, basic and fully diluted	(0.3)¢	(0.2)¢	1.2¢	0.3¢	0.5¢	0.4¢	0.2¢	0.5¢

There are no factors which may be used to generally 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 decreased during the second quarter of fiscal 2008 with the near term delay in sales orders combining with cash used to pursue new growth opportunities and planned acceleration of new product development. The Company has not yet commenced using its \$500,000 credit line available for these purposes.

Cash position:

Cash decreased by \$105,161 in the second quarter to \$86,361. For the six months, cash decreased by \$352,571.

Cash flow from operations:

Cash utilized for operating activities, including non-cash working capital changes, during the current quarter was \$83,714 compared to \$79,826 cash provided in the same quarter of the prior year.

Capital expenditures:

Capital expenditures of \$23,508 were incurred during the second quarter to purchase equipment.

Working capital position:

The Company completed its second quarter ended March 31, 2008 with working capital of \$1,086,703, down from \$1,387,325 at its fiscal year end. This decrease of \$300,622 was primarily attributed to an operating loss related funding of new product development and to lower sales.

Contractual obligations

The Company has entered into future U.S. dollar exchange contracts through to June 30th on a portion of its incoming cash receipts, to minimize fluctuations in exchange rates. At this time, no significant gain or loss has occurred on these contracts based on current exchange rates.

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, 2007, and there are no future commitments for the purchase of capital equipment.

Share capital

The Company has 34,210,694 common shares outstanding as at the date of this report. In addition, there are 2,350,500 options outstanding under the Company's stock option plan, details of which are included in the notes to the financial statements.

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, 2007, that relate to the business use aircraft markets, competitive position and intellectual property protection, have not changed from that reported previously.

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. 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 Company's annual financial statements.

The Company has recently employed financial instruments to hedge a portion of its foreign exchange requirements through to June 2008, and may continue to do so in the future.

Financial Resources

The Company's operations and lines of credit have ensured that sufficient cash is available to fund its current product development or capital expenditures and current level of operations, providing a base on which the Company can continue its growth in the aviation market. Continuing growth and product engineering will require additional capital beyond that generated from operations.

Forward-looking statements

The Company's financial reports contain certain forward looking statements that reflect the current views and/ or expectations of IWG with respect to its performance, business and future events. Such statements are subject to a number of risks, uncertainties and assumptions, which may cause actual results to be materially different from those expressed or implied. IWG assumes no future obligation to update these forward looking statements

Business outlook

Development activity pursued by IWG in recent years has assured that its UV based water treatment products and systems are at the leading edge of aviation market requirements. While some fluctuation in sales from period to period is to be anticipated, the outlook on the business aviation sector continues to be strong. Elsewhere, potable water quality is being perceived as an increasingly important issue for the commercial airlines, as evidenced by recent EPA and Health Canada reports.

International Water-Guard Industries 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.