



Interim Financial Statements of

**INTERNATIONAL WATER-GUARD
INDUSTRIES INC.**

Six months ended March 31, 2007

Interim Financial Statements of

INTERNATIONAL WATER-GUARD INDUSTRIES INC.

Notice of no auditor review of interim financial statements to March 31, 2007

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>2007</u>	September 30 <u>2006</u>
ASSETS		
Current assets:		
Cash	\$ 487,519	\$ 133,529
Accounts receivable	745,279	755,321
Inventory	354,131	388,844
Prepaid expenses	<u>30,532</u>	<u>21,664</u>
	1,617,461	1,299,358
 Equipment and furniture	 <u>219,892</u>	 <u>205,946</u>
	 <u>\$ 1,837,353</u>	 <u>\$ 1,505,304</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 375,496	\$ 354,383
Current portion of capital lease obligations and loan	<u>28,898</u>	<u>35,479</u>
	404,394	389,862
 Capital lease obligations and loan payable	 <u>57,637</u>	 <u>70,567</u>
	462,031	460,429
 Shareholders' equity:		
Share capital	7,538,289	7,533,289
Contributed surplus	104,025	90,319
Deficit	<u>(6,266,992)</u>	<u>(6,578,733)</u>
	1,375,322	1,044,875
	 <u>\$ 1,837,353</u>	 <u>\$ 1,505,304</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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Sales	\$ 1,149,646	\$ 925,738	\$ 2,163,330	\$ 1,719,317
Cost of goods sold	<u>453,913</u>	<u>382,711</u>	<u>889,940</u>	<u>679,855</u>
Gross profit	<u>695,733</u>	<u>543,027</u>	<u>1,273,390</u>	<u>1,039,462</u>
Expenses:				
Selling expenses	80,709	72,834	162,439	171,054
Research & development	105,847	91,332	218,448	207,418
General & administration	313,695	232,205	537,679	411,242
Stock option compensation	4,251	5,703	13,706	13,175
Amortization	13,680	11,597	25,588	13,444
Interest & bank charges	<u>1,088</u>	<u>15,714</u>	<u>3,788</u>	<u>37,365</u>
	<u>519,269</u>	<u>429,385</u>	<u>961,648</u>	<u>853,698</u>
Net earnings for the period	176,464	113,642	311,742	185,764
Deficit, beginning of period	<u>6,443,456</u>	<u>6,911,156</u>	<u>6,578,733</u>	<u>6,983,278</u>
Deficit, end of period	<u>\$ 6,266,992</u>	<u>\$ 6,797,514</u>	<u>\$ 6,266,991</u>	<u>\$ 6,797,514</u>
Earnings per share amounts:				
Basic	<u>0.5 ¢</u>	<u>0.3 ¢</u>	<u>0.9 ¢</u>	<u>0.6 ¢</u>
Diluted	<u>0.5 ¢</u>	<u>0.3 ¢</u>	<u>0.9 ¢</u>	<u>0.6 ¢</u>
Weighted average shares outstanding				
Basic	<u>33,599,694</u>	<u>33,302,194</u>	<u>33,571,638</u>	<u>33,302,194</u>
Diluted	<u>33,834,457</u>	<u>33,322,080</u>	<u>33,703,243</u>	<u>33,320,092</u>

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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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Cash flows from (used by):				
Operating activities:				
Net earnings for the period	\$ 176,464	\$ 113,642	\$ 311,742	\$ 185,764
Items not involving cash -				
Compensation related to stock option plan	4,251	5,703	13,706	\$ 13,175
Amortization	<u>13,680</u>	<u>11,597</u>	<u>25,588</u>	<u>13,444</u>
	194,394	130,942	351,036	212,383
Changes in non-cash operating working capital:				
Accounts receivable	(2,166)	(126,513)	10,042	(82,787)
Inventory	8,885	24,346	34,713	27,518
Prepaid expenses	10,032	2,492	(8,868)	8,389
Accounts payable and accrued liabilities	<u>(21,385)</u>	<u>48,559</u>	<u>21,113</u>	<u>41,967</u>
Cash flow from operations	<u>189,760</u>	<u>79,826</u>	<u>408,036</u>	<u>207,470</u>
Investing activities:				
Purchase of equipment and leaseholds	<u>(33,252)</u>	<u>(98,888)</u>	<u>(39,534)</u>	<u>(103,571)</u>
Financing activities:				
Proceeds (repayment) of demand loan	-	(147,000)	-	(217,400)
Issuance of capital stock	-	-	5,000	
Proceeds (repayment) of other loans payable	<u>(7,743)</u>	<u>-</u>	<u>(19,511)</u>	<u>(4,146)</u>
	<u>(7,743)</u>	<u>(147,000)</u>	<u>(14,511)</u>	<u>(221,546)</u>
Increase (decrease) in cash	148,765	(166,062)	353,990	(117,647)
Cash beginning of period	<u>338,754</u>	<u>403,219</u>	<u>133,528</u>	<u>354,804</u>
Cash end of period	<u>\$ 487,519</u>	<u>\$ 237,157</u>	<u>\$ 487,518</u>	<u>\$ 237,157</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 COST OF GOODS SOLD

Six months ended March 31

	Three months ended March 31		Six months ended March 31	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Opening inventory	\$ 363,016	\$ 279,750	\$ 388,844	\$ 282,922
Manufacturing costs:				
Materials	230,342	192,877	427,920	346,126
Labour, freight and other	85,565	59,534	182,961	111,744
Manufacturing overhead	<u>129,122</u>	<u>105,954</u>	<u>244,346</u>	<u>194,467</u>
Cost of goods available for sale	808,044	638,115	1,244,071	935,259
Closing inventory	<u>354,131</u>	<u>255,404</u>	<u>354,131</u>	<u>255,404</u>
Cost of goods sold	<u>\$ 453,913</u>	<u>\$ 382,711</u>	<u>\$ 889,940</u>	<u>\$ 679,855</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, 2007

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, 2006.

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	\$ 56,953
Furniture and office equipment	286,833
Leasehold improvements	<u>96,556</u>
	440,342
Accumulated amortization	<u>(220,450)</u>
Net book value	<u>\$ 219,892</u>

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

Obligations under capital leases	\$65,806
Loan Payable	<u>20,729</u>
	86,535
Current portion	<u>28,898</u>
Long term portion	<u>\$57,637</u>

The company's capital lease agreements have financed equipment acquired for the growth in operations. These lease obligations have terms from 27 to 53 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, 2007 includes an unlimited number of both common shares and preferred shares, of which 33,599,694 common shares and no preferred shares were issued and outstanding.

b) Under the Company's stock option plan, as of March 31, 2007 there were 2,757,500 options outstanding held by directors, officers and employees. These options are exercisable at various dates to March 14, 2010, as follows:

Exercise Price Per Share	Number Outstanding	Average Remaining Life in Years	Number Exercisable at March 31st
\$0.18	580,000	0.1	580,000
\$0.15	160,000	2.9	0
\$0.115	360,000	1.2	360,000
\$0.10	1,057,500	0.9	690,000
\$0.075 - \$0.09	<u>600,000</u>	<u>2.1</u>	<u>322,000</u>
Total	2,757,500	1.2	1,952,000

5. Commitments and contingencies:

Contractual obligations of the Company are substantially unchanged from those described within the notes to the fiscal 2006 audited financial statements.



INTERNATIONAL WATER-GUARD INDUSTRIES INC.

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

Second Quarter Ended

March 31, 2007

dated: May 2, 2007

INTERNATIONAL WATER-GUARD INDUSTRIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS Second Quarter to March 31, 2007

Overview

Comments in this analysis should be read in conjunction with the comparative interim financial statements for the six months ended March 31 2007. 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.

International Water-Guard Industries Inc. ("IWG") designs, manufactures, sells and services potable water treatment/management 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.

Operating results

The Company reported sales during the second quarter in fiscal 2007 of \$1,149,646, an increase of 24% above the same quarter of the previous year. Second quarter net earnings were \$176,464 compared to net earnings of \$113,642 in the prior year's second quarter.

Six month sales to March 31st were \$2,163,330 compared to \$1,719,317 in the prior year. Six month net earnings were \$311,742 compared to earnings of \$185,764 a year earlier.

The results for the quarter provide 0.5¢ net earnings per share in the current quarter (0.9¢ year to date), compared to net earnings of 0.3¢ per share in the second quarter of the prior year (0.6¢ year to date) on both a basic and fully diluted basis.

Sales and sales margins

Sales of aviation water treatment equipment continue to increase with second quarter recording at volume growth of 24% from the previous year.

Margin rates on equipment and parts sales remain generally consistent from period to period being reported, and in line with the growth in sales.

Operating expenses

Selling expenses of \$80,708 for this quarter increased by 11% over the comparable period of the prior year, which is attributed to increased travel during the period.

Engineering and product development expenses of \$105,847 in the second quarter, is an increase of 16% due to elevated product development activities.

General, administration and information technology expenses totaled \$317,946, a 34% increase above the same quarter in the prior year. This increase was primarily attributed to higher professional fees and investor relations expenses as well as increased staffing levels and some compensation increase.

The increase in amortization is related to capital expenditures early in calendar year 2006, while interest expense reduction is attributed to eliminating the Company's factoring loan that existed in the prior year.

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 2007		Fiscal year 2006				Fiscal year 2005	
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
Sales	\$1,149	\$1,013	\$929	\$1,014	\$926	\$794	\$816	\$723
Net income	\$176	\$135	\$67	\$152	\$114	\$72	\$50	\$52
Earnings per share, basic and fully diluted	0.5¢	0.4¢	0.2¢	0.5¢	0.3¢	0.2¢	0.2¢	0.2¢

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 further improved during the second quarter of fiscal 2007 with cash provided from operations, positioning the Company to pursue new growth opportunities and product development.

Cash position:

Cash increased by \$353,990 to \$487,519 during the six months, including a \$148,765 increase in the second quarter.

Cash flow from operations:

Cash provided from operating activities, before non-cash operating working capital, was \$194,394 in the current quarter compared to \$130,942 cash provided in the same quarter of the prior year. Increased sales have led to small changes to working capital items during the quarter.

Capital expenditures:

In total, capital expenditures of \$33,252 were incurred during the second quarter to purchase equipment and fund leasehold improvements.

Working capital position:

The Company completed its second quarter ended March 31, 2007 with working capital of \$1,213,067, an improvement from the position of \$1,053,085 at its fiscal year end. This improvement of \$159,982 was primarily attributed to improved cash flow during the periods.

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, 2006.

Share capital

The Company has 33,599,694 common shares outstanding as at the date of this report. In addition, there are 2,757,500 options outstanding under the Company's stock option plan. Details of 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:

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

At this time, there are no other companies of significance supplying flight certified potable water disinfection equipment to the aircraft industry, and IWG leads the market. It is expected that competition will come, although IWG intends to remain a leading 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. 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 progress.

Foreign Exchange

Generally, fluctuations in the Canadian to United States dollar exchange rate are recorded as transactions occur and at the end of the period financial results are reported. The details of the Company's foreign exchange policy are included in the notes to the annual audited 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 any 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

Continuing from the results of the prior two fiscal years, the Company's positive cash flow has continued during the current quarter. 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 from new projects 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.

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. 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 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.