



INTERNATIONAL
Water·Guard

Interim Financial Statements of

**INTERNATIONAL WATER-GUARD
INDUSTRIES INC.**

Six months ended March 31, 2009

Interim Financial Statements of

INTERNATIONAL WATER-GUARD INDUSTRIES INC.

Notice of no auditor review of interim financial statements to March 31, 2009

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

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

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

INTERNATIONAL WATER-GUARD INDUSTRIES INC.
BALANCE SHEETS

	March 31 <u>2009</u>	September 30 <u>2008</u>
ASSETS		
Current assets:		
Cash	\$ 942,926	\$ 940,302
Accounts receivable	733,153	710,770
Inventory	691,983	496,335
Prepaid expenses	<u>43,318</u>	<u>65,407</u>
	2,411,380	2,212,814
 Furniture and equipment	 247,028	 250,607
 Future income tax assets	 <u>432,000</u>	 <u>478,000</u>
	 <u>\$ 3,090,408</u>	 <u>\$ 2,941,421</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 508,641	\$ 449,247
Current portion of capital lease obligations and loan	<u>34,385</u>	<u>40,593</u>
	543,026	489,840
 Capital lease obligations and loan payable	 <u>26,352</u>	 <u>45,206</u>
	569,378	535,046
 Shareholders' equity:		
Share capital	8,111,486	8,108,202
Contributed surplus	177,889	165,803
Deficit	<u>(5,768,345)</u>	<u>(5,867,630)</u>
	2,521,030	2,406,375
	 <u>\$ 3,090,408</u>	 <u>\$ 2,941,421</u>

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

On behalf of the Board:

"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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Sales	\$ 1,325,494	\$ 856,064	\$ 2,540,410	\$ 1,710,447
Cost of goods sold	<u>473,219</u>	<u>427,248</u>	<u>936,595</u>	<u>924,236</u>
Gross profit	<u>852,275</u>	<u>428,816</u>	<u>1,603,815</u>	<u>786,211</u>
Expenses:				
Selling expenses	115,805	82,258	243,099	124,750
Engineering and product development	297,160	194,313	506,221	349,008
General, administrative and occupancy	358,372	285,886	671,411	547,155
Amortization	15,184	15,933	29,343	30,747
Interest	4,589	3,385	8,456	5,971
	<u>791,110</u>	<u>585,876</u>	<u>1,458,530</u>	<u>1,065,962</u>
Income (loss) before taxes	61,165	(157,060)	145,285	(279,751)
Income tax (expense) recovery	<u>(22,000)</u>	<u>54,300</u>	<u>(46,000)</u>	<u>96,300</u>
Net income (loss) for the period	39,165	(102,760)	99,285	(183,451)
Deficit, beginning of period	<u>5,807,510</u>	<u>5,851,277</u>	<u>5,867,630</u>	<u>5,770,586</u>
Deficit, end of period	<u>\$ 5,768,345</u>	<u>\$ 5,954,037</u>	<u>\$ 5,768,345</u>	<u>\$ 5,954,037</u>
Earnings (loss) per share amounts:				
Basic	<u>0.1 ¢</u>	<u>(0.3) ¢</u>	<u>0.3 ¢</u>	<u>(0.5) ¢</u>
Diluted	<u>0.1 ¢</u>	<u>(0.3) ¢</u>	<u>0.3 ¢</u>	<u>(0.5) ¢</u>
Weighted average shares outstanding				
Basic	<u>39,340,694</u>	<u>34,141,783</u>	<u>39,340,694</u>	<u>34,125,238</u>
Diluted	<u>39,340,694</u>	<u>34,660,821</u>	<u>39,340,694</u>	<u>34,594,738</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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Cash flows from (used by):				
Operations:				
Net earnings (loss) for the period	\$ 39,165	\$ (102,760)	\$ 99,285	\$ (183,451)
Items not involving cash -				
Income tax expense (recovery)	22,000	(54,300)	46,000	\$ (96,300)
Stock based compensation	7,509	4,101	13,121	\$ 8,331
Change in value of foreign exchange contracts	2,800	-	11,800	-
Amortization	15,184	15,933	29,343	30,747
	<u>86,658</u>	<u>(137,026)</u>	<u>199,549</u>	<u>(240,673)</u>
Changes in non-cash operating working capital:				
Accounts receivable	16,536	125,260	(34,183)	104,923
Inventory	(181,321)	31,517	(195,648)	55,249
Prepaid expenses	16,454	(9,179)	22,089	(46,464)
Accounts payable and accrued liabilities	78,644	(94,286)	59,393	(176,246)
	<u>16,971</u>	<u>(83,714)</u>	<u>51,200</u>	<u>(303,211)</u>
Investments:				
Purchase of furniture and equipment	<u>(12,084)</u>	<u>(23,508)</u>	<u>(25,764)</u>	<u>(39,231)</u>
Financing:				
Repayment of capital lease obligations and loan payable	(9,518)	(7,918)	(25,062)	(20,108)
Issuance of capital stock	-	9,979	2,250	9,979
	<u>(9,518)</u>	<u>2,061</u>	<u>(22,812)</u>	<u>(10,129)</u>
Increase (decrease) in cash	(4,631)	(105,161)	2,624	(352,571)
Cash, beginning of period	<u>947,557</u>	<u>191,522</u>	<u>940,302</u>	<u>438,932</u>
Cash, end of period	<u>\$ 942,926</u>	<u>\$ 86,361</u>	<u>\$ 942,926</u>	<u>\$ 86,361</u>
Supplementary information				
Interest paid	\$ 4,589	\$ 3,385	\$ 8,456	\$ 5,971
Non- cash transactions:				
Equipment purchased under capital lease	\$ -	\$ -	\$ -	\$ 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>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Opening inventory	\$ 510,662	\$ 618,500	\$ 496,335	\$ 642,232
Manufacturing costs:				
Materials	413,801	154,754	665,755	398,181
Direct labour, freight and other	92,414	105,174	185,621	204,750
Manufacturing overhead	<u>148,325</u>	<u>135,803</u>	<u>280,867</u>	<u>266,056</u>
Cost of goods available for sale	1,165,202	1,014,231	1,628,578	1,511,219
Closing inventory	<u>691,983</u>	<u>586,983</u>	<u>691,983</u>	<u>586,983</u>
Cost of goods sold	<u>\$ 473,219</u>	<u>\$ 427,248</u>	<u>\$ 936,595</u>	<u>\$ 924,236</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, 2009

1. Significant accounting policies:

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

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

2. Equipment and furniture:

Manufacturing equipment	\$ 94,041
Furniture and office equipment	385,513
Leasehold improvements	<u>101,820</u>
	581,374
Accumulated amortization	<u>(334,346)</u>
Net book value	<u>\$ 247,028</u>

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

Obligations under capital leases	\$48,300
Loan Payable	<u>12,437</u>
	60,737
Current portion	<u>34,385</u>
Long term portion	<u>\$26,352</u>

The company's capital lease agreements have financed equipment acquired for the growth in operations. These lease obligations have terms from 4 to 34 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, 2009 includes an unlimited number of both common shares and preferred shares, of which 39,340,694 common shares and no preferred shares were issued and outstanding.

b) Under the Company's stock option plan, as of March 31, 2008 there were 2,874,500 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 Months	Number Exercisable at March 31st
\$0.21	580,000	37.8	580,000
\$0.145-0.15	215,000	35.1	215,000
\$0.13	390,000	46.0	156,000
\$0.12	280,000	28.5	70,000
\$0.10	1,089,500	40.9	322,500
\$0.09	<u>320,000</u>	<u>4.9</u>	<u>320,000</u>
Total	2,874,500	34.9	1,663,500

c) The Company also has 5,000,000 warrants outstanding exercisable at \$0.17 until August 28, 2010.

5. Adoption of new accounting standards:

a) Inventory:

In June 2007, the CICA issued Section 3031 of the CICA Handbook, Inventories, which establishes new standards for the determination of inventory cost and its subsequent recognition as an expense, including any write-down to net realizable value; and to conform to IFRS. In certain circumstances, the new section will also permit the reversal of previous write-downs. The Company has adopted this policy for the period commencing October 1, 2008 however there was no material impact on the financial statements.

b) Goodwill and Intangible Assets:

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and the recognition, measurement and presentation of intangible assets. The Company has adopted these policies for the period commencing October 1, 2008 however there was no material impact on the financial statements.

c) Financial presentation:

In May 2007, the Accounting Standards Board (“AcSB”) amended Section 1400, General Standards of Financial Statement Presentation, to change the guidance related to management’s responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity’s ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern. The company has adopted this policy for the period commencing October 1, 2008. The amended standard did not have an impact on the valuation or classification of the company’s unaudited interim financial statements.

6. Future accounting changes:

International Financial Reporting Standards:

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

Adoption of IFRS will impact many areas of financial accounting and reporting. The Company is in the process of assessing the impacts of the Canadian convergence initiative and is developing a conversion plan.

7. Commitments and contingencies:

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



INTERNATIONAL
Water·Guard

Management's Discussion and Analysis

**INTERNATIONAL WATER-GUARD
INDUSTRIES INC.**

Second quarter ending March 31, 2009

Dated: May 11, 2009

INTERNATIONAL WATER-GUARD INDUSTRIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS Second quarter March 31, 2009

Overview

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

This analysis should be read in conjunction with the Company's comparative interim financial statements for the six months ended March 31, 2009. The following discussion, and analysis in this report, is based on information available to management as of May 11, 2009, is focused primarily on the current quarter's results and is intended to provide the reader with a further understanding of the Company's business and factors underlying its financial results.

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

Operating results

The increase in Company revenue evident in the first quarter, continued through the second quarter of fiscal 2009.

The Company reported sales during the second quarter in fiscal 2009 of \$1,325,494 compared to \$856,064, a 55% increase above the same quarter of the previous year. Second quarter net earnings were \$39,165 compared to a net loss of \$102,760 in the prior year's second quarter. Six month sales to March 31st were \$2,540,410 compared to \$1,710,447 in the prior year. Six month net earnings were \$99,284 compared to a loss of \$183,451 a year earlier.

This increase reflects a recovery from the prior year's temporary drop off in sales and of the US dollar exchange rate that occurred in the prior year's first six months. The Company continued the near term acceleration of its new product development and marketing 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.

The results for the quarter provide 0.1¢ net earnings per share in the current quarter (0.3¢ year to date) compared to a net loss of - 0.3¢ per share in the first quarter of the prior year (- 0.5¢ year to date) on both a basic and fully diluted basis.

Sales and sales margins

As noted above, sales of aviation water treatment equipment, parts and service increased in the first and second quarter. Service and parts revenue continued to increase with a greater install base.

The impact of the higher US dollar value during the first six months has been significant to both the company's reported sales and its margin rates on equipment and part sales.

Operating expenses

Selling expenses of \$115,805 for this quarter increased by 41% over the comparable period of the prior year, mainly due to increased travel and increased staffing levels to better serve key markets.

Engineering and product development expenses of \$297,160 in the quarter, is an increase of 53% over the prior year due to the announced acceleration of new product development during this fiscal year for complementary products and new Water Treatment Units..

General, administration and information technology expenses totaled \$350,864, a 23% increase above the same quarter in the prior year. This increase was primarily attributed to increased investor relations costs, and the execution of a director compensation plan that commenced this financial 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 2009		Fiscal Year 2008				Fiscal year 2007	
	Mar 31	Dec 31	Sept 30	Jun 30	Mar 31	Dec 31	Sept 30	Jun 30
Sales	1,325	\$1,215	\$1,153	\$1,293	\$856	\$854	\$1,279	\$1,044
Net income	\$39	\$60	\$41	\$46	(\$103)	(\$81)	\$405	\$92
Earnings per share, basic and fully diluted	0.1¢	0.2¢	0.1¢	0.1¢	(0.3)¢	(0.2)¢	1.2¢	0.3¢

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 improved during the first quarter of fiscal 2009 with the improvement in sales orders and earnings.

Cash position:

Cash increased modestly by \$2,624 since the commencement of the fiscal year.

Cash flow from operations:

Cash provided from operating activities, including non-cash operating working capital, was \$16,971 in the current quarter compared to \$83,714 cash used in the same quarter of the prior year.

Capital expenditures:

Capital expenditures of \$12,084 were incurred during the second quarter to purchase equipment.

Working capital position:

The Company completed its second quarter ended March 31, 2009 with working capital of \$1,868,354, an increase of \$145,378 from its fiscal year end. These changes generally reflect the trends in sales and earnings.

Future accounting changes

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

Adoption of IFRS will impact several areas of financial accounting and reporting. The Company is in the process of assessing the impacts of the Canadian convergence initiative and is developing a conversion plan.

Contractual obligations

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

Share capital

The Company has 39,340,694 common shares outstanding as at the date of this report. In addition, there are 2,874,500 options outstanding under the Company's stock option plan and 5,000,000 warrants outstanding, details of which are included in the notes to the financial statements.

Related party transactions

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

Risks and Uncertainties

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

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

Financial & Economic Conditions

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

Aircraft markets

The Company's primary customers are business use aircraft manufacturers, owners and operators. Such markets are cyclical over time although often differing from the cycles for

commercial aircraft. In particular, indicators signal that the present world economic downturn is causing a slowdown for the industry.

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 annual financial statements.

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

Financial Resources

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

Forward-looking statements

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

Business outlook

Development activity pursued by IWG in recent years has assured that its water treatment products and systems are at the leading edge of aviation market requirements. The recent world wide financial crisis is having an impact on the industry and Company in the near term, although there has been no impact on the operations of IWG to date.

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

Other information

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