



INTERNATIONAL  
**Water-Guard**

Interim Financial Statements of

**INTERNATIONAL WATER-GUARD  
INDUSTRIES INC.**

Nine months ended June 30 , 2007

**Interim Financial Statements of**

**INTERNATIONAL WATER-GUARD INDUSTRIES INC.**

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

	June 30 <u>2007</u>	September 30 <u>2006</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 764,478	\$ 133,529
Accounts receivable	770,642	755,321
Inventory	459,231	388,844
Prepaid expenses	<u>23,018</u>	<u>21,664</u>
	2,017,370	1,299,358
 Equipment and furniture	 <u>214,394</u>	 <u>205,946</u>
	 <u>\$ 2,231,763</u>	 <u>\$ 1,505,304</u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 332,931	\$ 354,383
Customer deposits	321,000	-
Current portion of capital lease obligations and loan	<u>33,058</u>	<u>35,479</u>
	686,990	389,862
 Capital lease obligations and loan payable	 <u>45,556</u>	 <u>70,567</u>
	732,546	460,429
 Shareholders' equity:		
Share capital	7,564,448	7,533,289
Contributed surplus	110,391	90,319
Deficit	<u>(6,175,622)</u>	<u>(6,578,733)</u>
	1,499,217	1,044,875
	 <u>\$ 2,231,763</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**

Nine months ended June 30

	Three months ended June 30		Nine months ended June 30	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Sales	\$ 1,042,882	\$ 1,014,045	\$ 3,206,203	\$ 2,733,361
Cost of goods sold	<u>425,710</u>	<u>371,988</u>	<u>1,315,651</u>	<u>1,051,843</u>
Gross profit	<u>617,172</u>	<u>642,057</u>	<u>1,890,552</u>	<u>1,681,518</u>
Expenses:				
Selling expenses	97,558	116,232	259,997	332,286
Research & development	144,516	110,280	362,964	317,698
General & administration	254,391	229,026	792,057	595,268
Stock option compensation	12,525	8,263	26,231	21,438
Amortization	14,202	12,690	39,792	26,134
Interest & bank charges	<u>2,612</u>	<u>13,446</u>	<u>6,400</u>	<u>50,811</u>
	<u>525,804</u>	<u>489,937</u>	<u>1,487,441</u>	<u>1,343,635</u>
Net earnings for the period	91,368	152,120	403,111	337,883
Deficit, beginning of period	<u>6,266,990</u>	<u>6,797,514</u>	<u>6,578,733</u>	<u>6,983,277</u>
Deficit, end of period	<u>\$ 6,175,622</u>	<u>\$ 6,645,394</u>	<u>\$ 6,175,622</u>	<u>\$ 6,645,394</u>
Earnings per share amounts:				
Basic	<u>0.3 ¢</u>	<u>0.5 ¢</u>	<u>1.2 ¢</u>	<u>1.0 ¢</u>
Diluted	<u>0.3 ¢</u>	<u>0.5 ¢</u>	<u>1.2 ¢</u>	<u>1.0 ¢</u>
Weighted average shares outstanding				
Basic	<u>33,665,393</u>	<u>33,302,194</u>	<u>33,665,393</u>	<u>33,302,194</u>
Diluted	<u>34,586,124</u>	<u>33,322,080</u>	<u>34,411,414</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

Nine months ended June 30

	Three months ended June 30		Nine months ended June 30	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Cash flows from (used by):				
Operating activities:				
Net earnings for the period	\$ 91,368	\$ 152,120	\$ 403,111	\$ 337,883
Items not involving cash -				
Compensation related to stock option plan	12,525	8,263	26,231	\$ 21,438
Amortization	<u>14,202</u>	<u>12,690</u>	<u>39,792</u>	<u>26,134</u>
	118,095	173,073	469,134	385,455
Changes in non-cash operating working capital:				
Accounts receivable	(25,363)	(287,804)	(15,321)	(370,590)
Inventory	(105,100)	(98,566)	(70,387)	(71,048)
Prepaid expenses	7,518	2,424	(1,353)	10,813
Accounts payable and accrued liabilities	(42,564)	63,628	(21,452)	105,595
Customer deposits	<u>321,000</u>	<u>-</u>	<u>321,000</u>	<u>-</u>
Cash flow from operations	<u>273,586</u>	<u>(147,245)</u>	<u>681,621</u>	<u>60,225</u>
Investing activities:				
Purchase of equipment and leaseholds	<u>(8,707)</u>	<u>(18,544)</u>	<u>(48,240)</u>	<u>(202,117)</u>
Financing activities:				
Proceeds (repayment) of demand loan	-	(85,500)	-	(302,900)
Issuance of capital stock	20,000	24,750	25,000	81,677
Proceeds (repayment) of other loans payable	<u>(7,921)</u>	<u>5,821</u>	<u>(27,432)</u>	<u>24,750</u>
	<u>12,079</u>	<u>(54,929)</u>	<u>(2,432)</u>	<u>(196,473)</u>
Increase (decrease) in cash	276,959	(220,718)	630,949	(338,365)
Cash beginning of period	<u>487,519</u>	<u>237,157</u>	<u>133,529</u>	<u>354,804</u>
Cash end of period	<u>\$ 764,478</u>	<u>\$ 16,439</u>	<u>\$ 764,478</u>	<u>\$ 16,439</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

Nine months ended June 30

	Three months ended June 30		Nine months ended June 30	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Opening inventory	\$ 354,131	\$ 255,404	\$ 388,844	\$ 282,922
Manufacturing costs:				
Materials	305,928	301,702	735,337	647,828
Labour, freight and other	92,074	65,396	273,547	177,140
Manufacturing overhead	<u>132,808</u>	<u>103,456</u>	<u>377,154</u>	<u>297,923</u>
Cost of goods available for sale	884,941	725,958	1,774,882	1,405,813
Closing inventory	<u>459,231</u>	<u>353,970</u>	<u>459,231</u>	<u>353,970</u>
Cost of goods sold	<u>\$ 425,710</u>	<u>\$ 371,988</u>	<u>\$ 1,315,651</u>	<u>\$ 1,051,843</u>

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

# INTERNATIONAL WATER-GUARD INDUSTRIES INC.

## Notes to Interim Financial Statements June 30, 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	\$ 60,910
Furniture and office equipment	291,205
Leasehold improvements	<u>96,931</u>
	449,044
Accumulated amortization	<u>(234,650)</u>
Net book value	<u>\$ 214,394</u>

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

Obligations under capital leases	\$57,885
Loan Payable	<u>20,729</u>
	78,614
Current portion	<u>(33,058)</u>
Long term portion	<u>\$45,556</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 June 30, 2007 includes an unlimited number of both common shares and preferred shares, of which 33,799,694 common shares and no preferred shares were issued and outstanding.

b) Under the Company's stock option plan, as of June 30, 2007 there were 2,497,500 options outstanding held by directors, officers and employees. These options are exercisable at various dates to May 7, 2012, as follows:

Exercise Price Per Share	Number Outstanding	Average Remaining Life in Years	Number Exercisable at June 30 <sup>th</sup>
\$0.21	580,000	4.9	80,000
\$0.15	160,000	2.7	25,000
\$0.115	360,000	0.9	360,000
\$0.10	837,500	1.0	559,500
\$0.075 - \$0.09	560,000	1.8	392,000
Total	2,497,500	2.2	1,416,500

c) During the three months ending June 30<sup>th</sup>, 200,000 options exercisable at 10¢, were exercised (250,000 options year to date)

5. Commitments and contingencies:

The company has entered into a contract for the supply of its potable water system on a Boeing BBJ aircraft, together with component suppliers' contracts, for delivery in the fourth quarter of fiscal 2007.

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