INTERNATIONAL
Water·Guard

WWW.WATER.AERO

INTERNATIONAL WATER-GUARD INDUSTRIES, INC. | **2009 ANNUAL REPORT**

TAKING A CLOSER LOOK

FINANCIAL HIGHLIGHTS

Fiscal year end September 30 (All items in dollars, except per share data)

Operations	2009	2008	2007
Total revenues	**$ 4,898,157**	$ 4,156,469	$ 4,484,903
Income (loss) before taxes	**425,016**	(148,044)	381,147
Net earnings (loss)	**312,016**	(97,044)	808,147
Cash flow from operations	**500,668**	88,264	349,309
Basic EPS	**0.7¢**	(0.3¢)	2.4 ¢
Fully diluted EPS	**0.7¢**	(0.3¢)	2.4 ¢

Financial position	2009	2008	2007
Net capital expenditures	**$ 38,916**	$ 96,075	$ 63,147
Working capital	**2,266,003**	1,722,974	1,387,326
Total assets	**3,249,308**	2,941,421	2,486,701
Shareholder's equity	**2,756,037**	2,406,375	1,990,931
Common shares outstanding	**39,340,694**	39,310,694	34,108,694

Operating Results in thousands of dollars

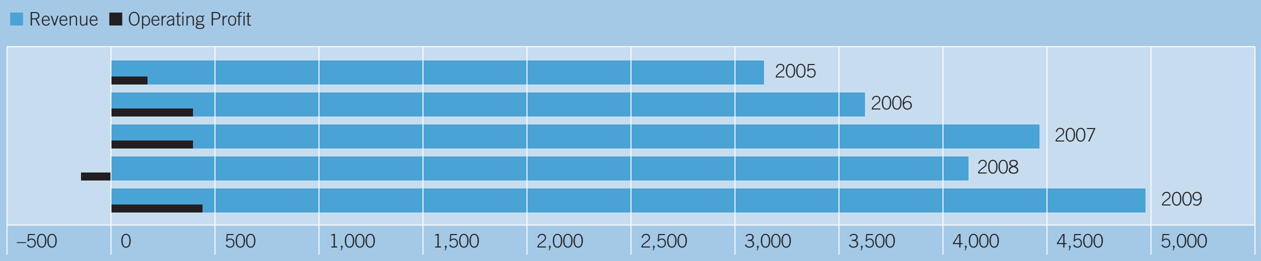
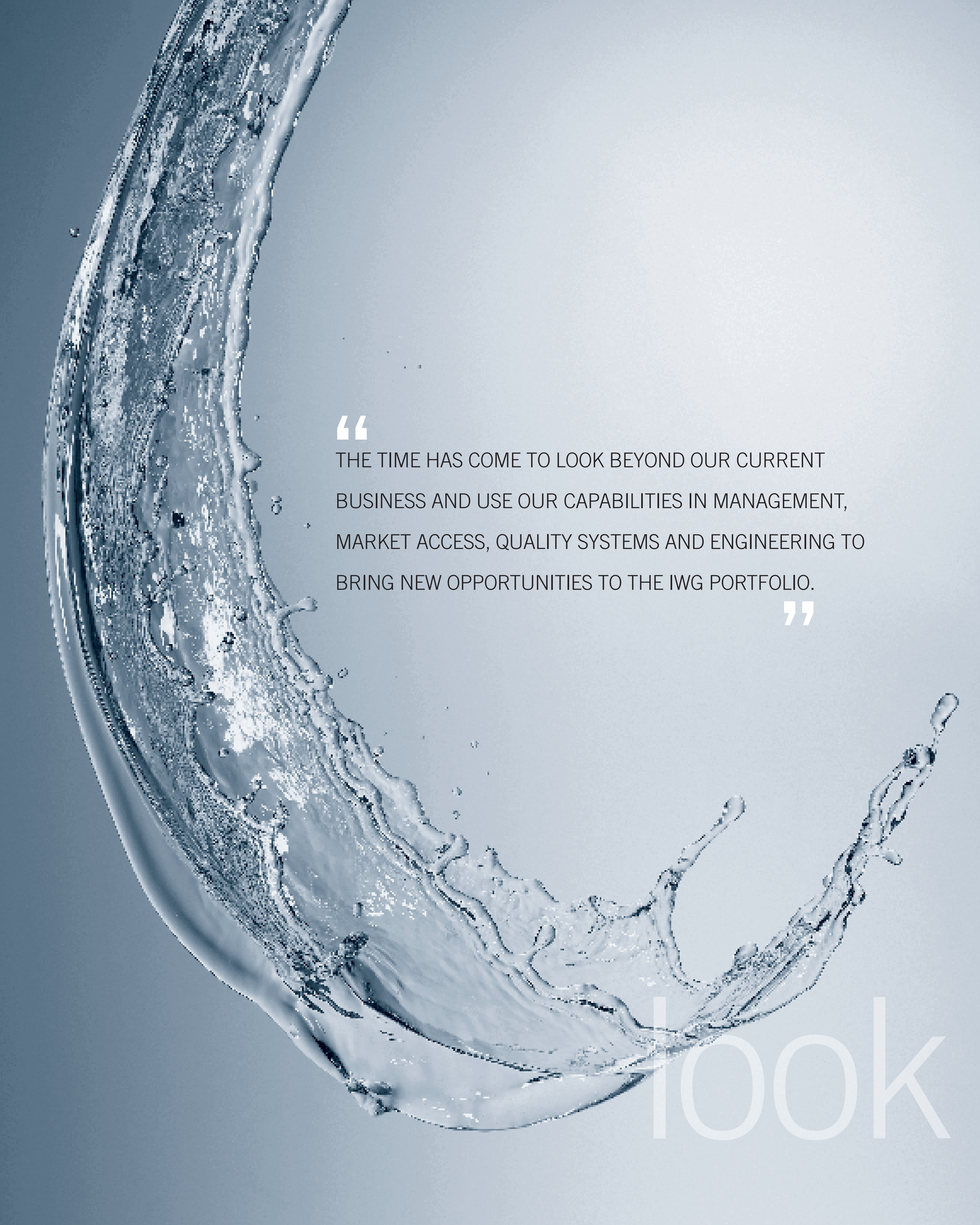


Table of Contents



“THE TIME HAS COME TO LOOK BEYOND OUR CURRENT BUSINESS AND USE OUR CAPABILITIES IN MANAGEMENT, MARKET ACCESS, QUALITY SYSTEMS AND ENGINEERING TO BRING NEW OPPORTUNITIES TO THE IWG PORTFOLIO.”

look

PRESIDENT'S MESSAGE

IWG entered 2009 bracing itself for a very tough year as the aviation industry, and especially the business aircraft community prepared for a significant downturn. Instead, I am very pleased to report that a combination of conservative management and comparative resilience at the top end of the business jet market, together with a favorable exchange rate, has resulted in record sales and income.

Our balance sheet shows we have more than $1.3 million in cash available, and no debt. This is a very solid basis on which to move into the next year.

The challenge for IWG is to maintain this position while working to grow the business significantly. Since our turn-around in 2005, we have expanded our capabilities as an aerospace company and confirmed our position as a credible and trusted supplier to the industry. The time has come to look beyond our current business and use our capabilities in management, market access, quality systems and engineering to bring new opportunities to the IWG portfolio. This will be our major strategic initiative for 2010.

Despite the overall industry downturn of the last year, IWG achieved a number of significant milestones:

> **Delivering** of our first IWG-A6 Water Treatment Units for the Gulfstream G650

> **Receiving** our "Gulfstream Supplier of the Year" award for a remarkable third year in a row

> **Launching** the development of an "In-Flight Drain System" for the Boeing Business Jet

> **Completion** of a Supplemental Type Certificate program by Dassault Falcon Jet for the retrofit of IWG products to existing aircraft

On a broader industry front, the US Environmental Protection Agency issued its final aircraft drinking water rule in the fall. The rule addresses water sampling requirements for commercial airliners and consequences for failing water tests. This is a step forward, but does not provide any real antidote to the problem of on-board water contamination.

beyond

This can only be achieved with an on-board water treatment solution. We should also point out that under an interim enhanced water monitoring program, American aircraft are still showing a 4% failure rate – equivalent to some 300 aircraft at any one time — with questionable water on board. And of those, a dozen or so will have E.coli contamination. We continue to work with the airlines and commercial airliner manufacturers for the eventual inclusion of IWG equipment as an accepted standard, as it has become in the Business and VIP aircraft industry.

In corporate aviation, we are regarded as the "Gold Standard" for aircraft water treatment and systems. The Gulfstream G650 rolled out in early October with "IWG Onboard," Dassault Falcon Jet have embarked on a retrofit marketing initiative for IWG equipment, and the VIP airliner, or "Biz-liner" market continues to be buoyant, with ever increasing interest in the solutions of IWG both for water treatment and water systems.

Our Board of Directors has continued its key role in supporting and advising the company on its path forward. This year we were pleased to announce the addition of Vancouver businessman Malik Talib, bringing with him a strong track record of entrepreneurial success and community service.

On a concluding note, I thank the entire IWG team for continuing hard work during a time of great stress on our business, and to our shareholders for their continuing support.

David C. Fox | President & CEO


above all,

COMPANY OVERVIEW

The Company has now delivered over 2,000 of its water treatment units to the aviation industry worldwide. The units 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.

Building on its success in the corporate aviation market, IWG is placing emphasis on the commercial airlines. The U.S. Environmental Protection Agency recently released its "Airline Drinking Water Rule" addressing increased water sampling requirements for commercial airliners and consequences for failing water tests. It is the view of IWG that on-board water treatment is the optimum way to deal with this issue.

water quality

COMPANY CAPABILITY

International Water-Guard is a Transport Canada approved manufacturing and maintenance organization, holding AS9100 aerospace quality management certification. The Company is also recognized by EASA (the European Aviation Safety Agency) as a certified maintenance organization. IWG operates from a 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 experience in designing and certifying water treatment products and systems to appropriate aviation standards. IWG has extensive computer aided design capability, using both the Solid Works and CATIA packages. 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.

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 worldwide. Currently, IWG supports more than 2,000 water treatment units on various aircraft types, and circulating potable water systems flying on five different aircraft types.

fully flight

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 and meet or exceed the rigorous standards required for certified aviation products.

PRODUCTS

Aircraft Water Treatment Units

IWG's family of aircraft water treatment units were designed to address the problem of lack of assured water quality on aircraft. They 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 order to be issued a "Supplemental Type Certificate," or "STC." IWG has been issued U.S. and Canadian STC's on its ultraviolet disinfection equipment, and on its 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. The dramatically redesigned NPS-A3 received its Transport Canada certification in 2000. The A3 was developed to meet growing customer needs by fitting into smaller spaces and adding filtration to the disinfection capability.

qualified

lightweight

The IWG-A4 is the company's first 'intelligent" water treatment unit, and is a standard customer option on the Dassault Falcon Jet family. Ease of maintenance was a key feature, addressed through a new modular design. It is also equipped with enhanced self-monitoring capability that ensures adequate ultraviolet light is produced to disinfect the aircraft's water supplies, while scanning for a range of fault conditions which can be reported to a cabin management system through standard industry data protocols.

The NPS-A6 is a stainless steel product incorporating both ultraviolet disinfection and filtration at a higher flow rate, which has now evolved into the IWG-A6. The IWG-A6, to be standard on the Gulfstream G650, includes the controller concepts of the IWG-A4 and flow rate of the NPS-A6 in an all new package.

Aircraft Water Systems

IWG has evolved into a comprehensive supplier of aircraft water systems and engineering support. This includes the patented Circulating Potable Water System (C-PWS™) and custom systems for other specific aircraft applications, comprising a variety of third party and custom components, IWG design, and customer support. Design can include elements of the "Smart Water System" concept using controller modules designed to manage power and data to active system components.

The fully certified IWG Circulating Potable Water System (C-PWS) 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, Airbus ACJ, Boeing BBJ, Bombardier Global Express, and Gulfstream GIV aircraft.

Replacement Parts and Service

In addition to new products and systems, the Company is an Approved Maintenance Organization providing spare parts and overhaul and repair services for its equipment.

and robust

TECHNOLOGY

IWG Water Treatment Units are designed to provide optimum 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. IWG has developed lightweight, robust equipment that meets rigorous aviation equipment standards with a variety of monitoring and fail-safe design features.

Disinfection by Ultraviolet Light

Ultraviolet radiation is actually a form of high energy light. At the proper dosage (intensity and exposure time), UV light is fatal to micro-organisms known to inhabit water. 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.

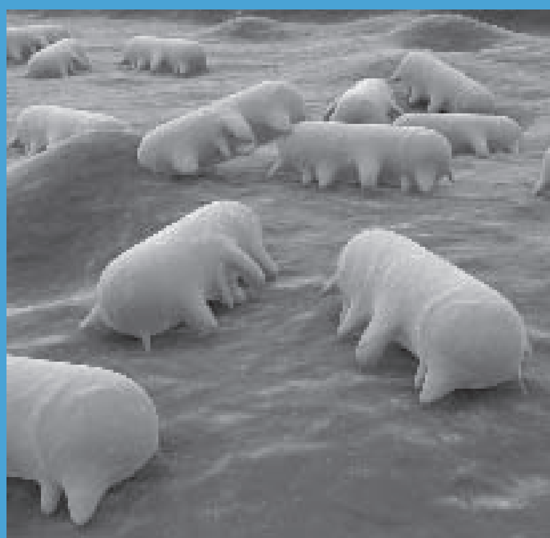
Mercury arc lamps generate the ultraviolet radiation for water disinfection, with low-pressure lamps being the most common and effective type and are efficient producers of ultraviolet rays in the 254 nm germicidal range. This wavelength is very effective in the destruction of all known micro-organisms,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

Studies show that DNA molecules in the nucleus of the organism absorb ultraviolet light which is inactivated when sufficient dosage has been absorbed to modify the molecular structure in the DNA. 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.

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.



MANAGEMENT'S DISCUSSION AND ANALYSIS

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 audited financial statements and notes for the fiscal year ended September 30, 2009. The discussion and analysis in this report is based on information available to management as of December 9, 2009, and is intended to provide the reader with a further understanding of the Company's business and factors underlying its financial results.

During each of the last three fiscal years, the Company has been able to report increased water treatment equipment and service revenues, and positive cash flow from operations. The Company held cash of $1,362,363 and had a $500,000 available credit line at September 30th, 2009, enabling it to support its plans to pursue sales growth and investment in new products.

SELECTED ANNUAL FINANCIAL INFORMATION

($000's except per share amounts)

Fiscal year September 30th	2009	2008	2007
Total revenues	$4,898	$4,156	$4,485
Earnings (loss) from operations before taxes	$425	($148)	$381
Income tax recovery (expense)	($113)	$51	$427
Net income (loss)	$312	($97)	$808
Earnings (loss) per share, basic and fully diluted	0.7¢	(0.3¢)	2.4¢
Dividends per share	Nil	Nil	Nil
Cash flow from operations	$501	$88	$349
Cash & cash equivalent	$1,362	$940	$439
Total assets	$3,249	$2,941	$2,487
Long term debt (1)	$18	$45	$43

(1) Excludes current portion

Additional information relating to the Company is also available at the Company's web site at www.water.aero or under its name on SEDAR at www.sedar.com.

REVIEW OF OPERATING RESULTS

Despite the world economic downturn, IWG sales exceeded their 2008 level boosted by a supportive U.S./Canadian dollar exchange rate. The sales increase served to provide stronger margins while expenses were closely managed.

The Company reports revenue in fiscal 2009 of $4,898,157, an 18% increase over the prior year's figure of $4,156,469. Fiscal 2009 net earnings of $312,016 compares to a net loss of $97,044 in the prior year. The Company's earnings per share were 0.7¢ in fiscal 2009 vs. a loss of 0.3¢ in fiscal 2008, both on a basic and fully diluted basis.

Revenue

The sales value of water treatment units increased by 11% over the year assisted by a stronger U.S. Dollar. However, unit sales decreased by 5% reflecting the general softness in the aviation market. Sales of systems and system components increased significantly over 2008 to represent 10% of total sales. Parts and service revenue grew by 13%.

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

The increased sales provided an increased gross margin percentage, reflecting the non-variable nature of some manufacturing expenses.

Operating expenses

Selling expenses of $427,924 increased by 30% compared to the prior year. Most of this increase was due to a reclassification of staffing from administration to sales & marketing.

Engineering and product development expenses of $875,219 represent a 13% increase over the prior year. Increased engineering staff and design contracts reflect a continuation of product development including new product design, prototyping, and testing. All product development costs have been expensed, and none have been capitalized.

General, administration, insurance, information technology and regulatory related expenses totaled $1,266,085, a 5% increase compared to fiscal 2008. The increase is primarily due to investor relations expenses and legal costs.

Income taxes

The Company's income tax expense represents the utilization of prior year Non-Capital Losses partially offset by a change in the valuation allowance associated with the Company's future tax assets related to losses carried forward and other timing differences.

QUARTERLY INFORMATION

The Company's sales were $1,211,332 during the fourth quarter ended September 30th, 2009, compared to $1,153,276 for the same period a year earlier. Earnings from operations were $245,017, compared to $61,219 a year earlier.

The following summary information 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 2009:					
Sales	$1,215	$1,325	$1,146	$1,212	$4,898
Earnings before income taxes	84	61	35	245	425
Income tax expense	(24)	(22)	(12)	(55)	(113)
Net income	60	39	23	190	312
Earnings per share, basic and fully diluted	0.1¢	0.1¢	0.1¢	0.4¢	0.7¢
Fiscal 2008:					
Sales	$854	$856	$1,293	$1,153	$4,156
Earnings before income taxes	(123)	(157)	70	62	(148)
Income tax (expense) recovery	42	54	(24)	(21)	51
Net income (loss)	(81)	(103)	46	41	(97)
Earnings per share, basic and fully diluted	(0.2¢)	(0.3¢)	0.1¢	0.1¢	(0.3¢)

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

The Company's liquidity and capital resource position has further improved during the year with cash provided from operations, enabling the Company to pursue new market opportunities and execute product development.

Cash position

Cash increased by $422,061 to $1,362,363 from a year earlier, primarily due to regular operating activities.

Cash flow from operations

Cash provided by operating activities, was $500,669 in 2009 ($88,264 in 2008). This amount was from earnings before taxes and non-cash items with $27,556 from non-cash working capital changes.

Capital expenditures

Capital expenditures of $38,916 were incurred by the Company. This amount included manufacturing equipment costs of $11,987, computer equipment and software purchases of $22,478 plus manufacturing and office equipment of $4,451.

Cash provided from financing activities

The Company issued 30,000 common shares on exercise of options during the year for cash proceeds of $2,250, and utilized $41,941 to meet long-term debt obligations for a net use of cash from financing activities of $39,691.

Working capital position

The Company completed its 2009 fiscal year with $2,266,003 in working capital, an improvement of $543,029 from the prior year. This improvement was primarily attributed to cash flow from operations. The Company completed fiscal 2009 with a cash reserve plus a credit facility available to finance its future growth.

Contractual obligations

The Company's operating facility is subject to a lease agreement until November 2010, with one 3-year renewal option. Other obligations of the Company are the capital lease and royalty agreements described in the notes to the September 30th financial statements.

Share capital

The Company now has 39,340,694 common shares outstanding as at the date of this report. There are 2,582,500 options outstanding under the Company's stock option plan.

ADOPTION OF NEW ACCOUNTING STANDARDS

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. This section was effective for the Company on October 1, 2008 but had no material impact on the financial statements.

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. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This section was effective for the Company on October 1, 2008 but did not have a material impact on the financial statements.

FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards

In February 2008, the CICA's Accounting Standards Board (AcSB) 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Financial statement preparation requires that the Company use estimates and assumptions that affect the reported amount of certain assets and liabilities as well as related revenues and expenses. Our accounting policies are described in note 2 to our financial statements. The following policies have a more significant impact on the Company's financial statements or are significantly impacted by judgments, assumptions and estimates used in the preparation of the Company's financial statements.

Revenue recognition and accounts receivable

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 collectability is reasonably assured. Amounts received from customers in advance of satisfying all revenue recognition criteria are deferred.

The Company mitigates credit risk through regular credit assessment and collection policies. Trade receivable accounts are reviewed regularly and an allowance for doubtful receivables is recognized when we determine an account is not fully collectable.

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 including an allocation of indirect manufacturing costs. A provision is recognized to the extent that cost of inventory exceeds its net realizable value. Such provisions are reversed in subsequent periods if the net realizable value increases.

Income taxes

Income taxes are accounted for using the 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 based on the Company's best judgment on the recovery of tax losses carried forward and other timing differences is recorded against any future tax asset when such benefits are not expected to be realized.

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 potential impact of such risks to its operations. The following are the more significant risks managed by the Company.

Financial & Economic Conditions

2009 world financial and economic conditions have not had a significant impact on the Company results as of the date of writing. IWG monitors the situation carefully with a view to mitigating risk from any more significant downturns. The Canadian/ U.S. dollar exchange rate is a key factor that the company reviews frequently to minimize adverse impact on the company's financial health.

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. The well documented downturn in the corporate jet market has had little impact on IWG, as it operates in the large business jet and VIP airliner markets that have been less affected.

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 that are not subject to a production agreement will fluctuate from period to period offset in part by increasing sales to new customers.

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. It is known that one new aircraft program will be employing a potable water disinfection device in a configuration different from IWG. 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 IWG is one of the few companies 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 rights against those who appear to be infringing upon them. In this respect, the Company filed a Statement of Claim against Bombardier Inc. on June 26th, 2006, claiming infringement of a Canadian patent owned by the Company. This action is currently in progress.

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 some 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 financial statements.

Fluctuations in the Canadian to U.S. dollar foreign exchange rate will impact sales revenue, gross margins and net earnings reported by IWG. With the shift in U.S./Canadian dollar exchange rate 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 the fluctuation in exchange rates for a portion of the Company's near term cash flow.

Financial Resources

The Company's operations continue to provide cash flow and assure that funds are available for the current level of operations, product development, and capital expenditures. Continuing growth in the aviation market may require additional capital beyond that generated from operations.

The notes to the Company's financial statements describe in more detail the credit, liquidity, and fair value risks that may impact the Company's financial instruments.

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's management.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company maintains a system of internal controls and procedures over regular financial transactions and financial reports, to ensure management has confidence in the quality 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, approval of key transactions and open communication from and with employees. 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 continue to be improved.

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 long term 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.

With its base in the aviation industry firmly established, a solid infrastructure in place and a robust balance sheet, IWG's objective is to significantly grow its business both within current markets and through exploration of new opportunities that will lever off its industry expertise, corporate structure and financial strength.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of International Water-Guard Industries Inc. for the fiscal year ended September 30, 2009 and 2008 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 Annual Information Form 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.

President, CEO and Director

Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of International Water-Guard Industries Inc. as at September 30, 2009 and 2008 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Vancouver, Canada
November 13, 2009

BALANCE SHEETS

September 30, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$ 1,362,363	$ 940,302
Accounts receivable	672,010	710,770
Inventory (note 3)	577,993	496,335
Prepaid expenses	42,807	65,407
Future income tax asset (note 9)	86,000	–
	2,741,173	2,212,814
Furniture and equipment (note 4)	229,135	250,607
Future income tax assets (note 9)	279,000	478,000
	$ 3,249,308	$ 2,941,421
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 449,413	$ 449,247
Current portion of capital lease obligations and loan payable (note 6)	25,757	40,593
	475,170	489,840
Capital lease obligations and loan payable (note 6)	18,101	45,206
	493,271	535,046
Shareholders' equity:		
Share capital (note 7)	8,111,487	8,108,202
Contributed surplus (note 7(c))	200,164	165,803
Deficit	(5,555,614)	(5,867,630)
	2,756,037	2,406,375
Contingencies and commitments (note 8)		
	$ 3,249,308	$ 2,941,421

See accompanying notes to financial statements.

Approved on behalf of the Board:

David C. Fox
Director

Bruce W. Gowan
Director

STATEMENTS OF OPERATIONS AND DEFICIT

Years ended September 30, 2009 and 2008

	2009	2008
Sales	$ 4,898,157	$ 4,156,469
Cost of goods sold	1,827,070	1,922,205
Gross profit	3,071,087	2,234,264
Expenses:		
Selling expenses	427,924	328,773
Engineering and product development	875,219	772,194
General, administrative and occupancy	1,266,085	1,204,850
Amortization	60,389	64,758
Interest	16,454	11,733
	2,646,071	2,382,308
Income (loss) before taxes	425,016	(148,044)
Future income tax recovery (expense) (note 9)	(113,000)	51,000
Net income (loss) and comprehensive income (loss)	312,016	(97,044)
Deficit, beginning of year	(5,867,630)	(5,770,586)
Deficit, end of year	$ (5,555,614)	$ (5,867,630)
Income (loss) per share amounts:		
Basic	0.7¢	(0.3¢)
Diluted	0.7¢	(0.3¢)
Weighted average shares outstanding:		
Basic	39,340,283	34,647,428
Diluted	39,340,283	34,647,428

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Years ended September 30, 2009 and 2008

	2009	2008
Cash flows from (used by):		
Operations:		
Net income (loss)	$ 312,016	$ (97,044)
Items not involving cash:		
Future income tax expense (recovery)	113,000	(51,000)
Amortization	60,388	64,758
Change in value in forward contract	(47,688)	(6,500)
Stock based compensation	35,396	18,408
	473,112	(71,378)
Changes in non-cash operating working capital:		
Accounts receivable	86,448	17,008
Inventory	(81,658)	145,897
Prepaid expenses	22,600	(27,438)
Accounts payable and accrued liabilities	166	24,175
	500,668	88,264
Financing:		
Repayment of capital lease obligations	(37,795)	(29,654)
Repayment of loan payable	(4,146)	(4,147)
Issuance of capital stock	2,250	494,080
	(39,691)	460,279
Investments:		
Purchase of furniture and equipment	(38,916)	(47,173)
Increase in cash and cash equivalents	422,061	501,370
Cash and cash equivalents, beginning of year	940,302	438,932
Cash and cash equivalents, end of year	$ 1,362,363	$ 940,302
Supplementary information:		
Interest paid	$ 16,454	$ 11,733
Non-cash transactions:		
Furniture and equipment purchased using capital lease obligations	–	48,902

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Years ended September 30, 2009 and 2008

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 treatment equipment and water systems.

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, except where otherwise indicated, are expressed in Canadian dollars. 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 as well as an allocation of indirect overhead costs and depreciation. A provision is recognized to the extent that cost of inventory exceeds its net realizable value. Such provisions are reversed in subsequent periods if the net realizable value increases.

(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 impairment may exist. 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 8(a)). Royalty payments are recognized and expensed when incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) :

(h) Engineering and product development:

Engineering 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.

(i) Income taxes:

Income taxes are accounted for using the 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:

The Company has a stock-based compensation plan, which is described in note 7(c).

The Company recognizes stock-based compensation related to stock options granted to employees and directors based on the fair value of the options on the grant date and recognizes such stock-based compensation in results from operations over the vesting period. Options granted to consultants are measured at fair value and the related compensation is recognized over the period that the services are delivered. The measurement date for options granted to consultants is the date on which the services are substantially completed and changes in fair value between the grant date and measurement date are recognized in stock-based compensation during the period.

(k) Income (loss) per share:

Income (loss) 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. All of the Company's outstanding options were excluded from the calculation of diluted earnings per share for the years ended September 30, 2009 and 2008 as they were anti-dilutive.

(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. 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, 2009, foreign exchange loss included in net earnings totaled $54,755 (2008 - $88,837 gain) which are included in sales in the statement of operations.

(m) Comprehensive income (loss):

Comprehensive income (loss), comprising net income and other comprehensive income, is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Cumulative changes in other comprehensive income (loss) are included in accumulated other comprehensive income which is presented as a separate component in shareholders' equity. For all periods presented, net earnings (loss) are equal to comprehensive income (loss). Accordingly, no amounts are required to be recognized as a separate component of shareholders' equity.

(n) Financial instruments:

Financial assets and liabilities are initially recognized and subsequently measured based on their classification as held-for-trading, available for sale, held-to-maturity, loans and receivables, or other financial liabilities.

The Company classifies cash and cash equivalents as "held-for-trading", measured at fair value. Accounts receivable are classified as "loans and receivables", and measured at amortized cost.

Accounts payable and accrued liabilities, capital lease obligations and loan payable are classified as other financial liabilities and are measured at amortized cost.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) :

The Company enters into foreign currency forward contracts from time to time to protect itself against fluctuations in the U.S. dollar exchange rate. The Company does not use hedge accounting. Accordingly, the foreign currency forward contracts are recognized at fair value on the balance sheet and changes in fair value are recognized in sales in the statement of operations.

(o) Adoption of new accounting standards:

(i) Inventory:
In June 2007, the Canadian Institute of Chartered Accountants (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. This Section was effective for the Company on October 1, 2008 but had no material impact on the financial statements.

(ii) 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. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This Section was effective for the Company on October 1, 2008 and did not have a material impact on the financial statements.

(p) Future accounting changes:

(i) International Financial Reporting Standards:
In February 2008, the CICA's Accounting Standards Board (AcSB) 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.

3. INVENTORY:

	2009	2008
Raw materials and work-in-process	$ 443,505	$ 350,665
Finished goods	134,488	145,670
	$ 577,993	$ 496,335

4. FURNITURE AND EQUIPMENT:

	2009	2008
Tooling	$ 7,779	$ 3,877
Manufacturing and distribution equipment	95,278	87,193
Furniture and office equipment	397,429	370,499
Leasehold improvements	101,072	101,073
	601,558	562,642
Accumulated amortization	(372,423)	(312,035)
Net book value	$ 229,135	$ 250,607

Four capital lease agreements ended during the fiscal year, and the buy-out options were exercised. As at September 30, 2009, furniture and equipment with a cost of $92,831 (2008 - $131,434) and a net book value of $50,495 (2008 - $85,333) is held under capital lease.

5. BANK CREDIT LINES:

The Company has a $500,000 operating loan credit facility with The Toronto-Dominion Bank. Amounts drawn on the facility bear interest at bank prime rate 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, 2009, no amounts have been drawn on this facility.

6. CAPITAL LEASE OBLIGATIONS AND LOAN PAYABLE:

	2009	2008
Obligations under capital leases	$ 31,420	$ 69,216
Loan payable	12,438	16,583
	43,858	85,799
Current portion	25,757	40,593
	$ 18,101	$ 45,206

The Company has entered into several capital lease agreements for equipment. These lease obligations have terms from 10 to 30 months, with interest rates ranging from 2.3% to 10.5% and averaging 6.1%. Each lease includes a purchase option approximating 10% of the equipment cost exercisable 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.

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

2010	$ 23,070
2011	11,271
	34,341
Less: amount representing interest	2,921
Principal amount of capital lease obligation	$ 31,420

During 2002, the Company received funds from Industry Canada's Industrial Technology Office (ITO). The loan outstanding is non-interest bearing, repayable in equal annual installments until December 2011. Interest at ITO's prescribed rates plus 300 basis points is charged on late payments.

7. SHARE CAPITAL:

(a) Authorized:

Unlimited number of common shares without par value

Unlimited number of preference shares without par value

(b) Issued common shares:

	2009		2008	
Common shares	Shares	Amount	Shares	Amount
Balance at beginning of year	39,310,694	$ 8,108,202	34,108,694	$ 7,607,553
Issued for cash in private placement of common shares, net of issue costs	–	–	5,000,000	476,100
Issued for cash on exercise of options	30,000	3,285	202,000	24,549
Balance at end of year	39,340,694	$ 8,111,487	39,310,694	$ 8,108,202

7. SHARE CAPITAL (CONTINUED) :

(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 3,503,000 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, 2009 and 2008 and changes during the years ending on those dates is presented below:

	2009		2008	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	2,197,500	$ 0.14	2,162,500	$ 0.14
Granted	767,000	0.10	670,000	0.13
Exercised	(30,000)	(0.08)	(202,000)	(0.09)
Cancelled or expired	(352,000)	(0.11)	(433,000)	(0.13)
Outstanding, end of year	2,582,500	0.13	2,197,500	$ 0.14
Options exercisable, end of year	2,131,500	$ 0.14	1,605,500	$ 0.14

Stock options outstanding and exercisable at September 30, 2009:

Number of stock options outstanding	Options exercisable	Exercise price	Weighted average remaining contractual life
580,000	580,000	$ 0.21	31.7 months
190,000	190,000	0.15	28.3 months
320,000	320,000	0.13	39.9 months
280,000	280,000	0.12	22.6 months
1,032,500	581,500	0.10	35.8 months
180,000	180,000	0.09	2.5 months
2,582,500	2,131,500		30.7 months

During the year ended September 30, 2009, the Company recognized $35,396 (2008 - $18,408) in stock-based compensation related to options granted.

The fair value of options granted during the year ended September 30, 2009 was calculated using the Black-Scholes option pricing model assuming a weighted average risk-free interest rate of 1.62% (2008 - 3.35%), a dividend yield of 0.0%, a weighted average expected volatility of 53.1% (2008 - 48.7%) and expected life of stock options of 4 years (2008 - 3.5 years). The weighted average grant date fair value of options granted during the year ended September 30, 2009 was $0.04 (2008 - $0.05).

7. SHARE CAPITAL (CONTINUED) :

Changes in contributed surplus related to stock-based compensation are as follows:

Contributed surplus	2009	2008
Balance at beginning of year	$ 165,803	$ 153,964
Stock-based compensation reclassified to share capital on exercise of options	(1,035)	(6,569)
Stock-based compensation recognized	35,396	18,408
Balance at end of year	$ 200,164	$ 165,803

8. CONTINGENCIES AND COMMITMENTS:

(a) The Company entered into an agreement with the National Research Council of Canada (NRC/IRAP) in 2002, 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 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, from April 1, 2007 through September 30, 2007 and then from January 1, 2009 for every quarter thereafter through December 31, 2014. Royalty payments have been made as required with accumulated royalties paid or payable to September 30, 2009 totaling $151,956 (2008 - $77,428).

(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, are:

2010	$ 105,300
2011	17,550
	$ 122,850

9. INCOME TAXES:

Income tax expense, or recovery attributable to utilization of prior year losses, differs from the amounts computed by applying the combined Canadian federal and provincial income tax rate of 30.25% (2008 - 31.78%) to earnings before income taxes as follows:

	2009	2008
Earnings (loss) before income taxes	$ 425,016	$ (148,044)
Expected income tax recovery (expense)	$ (128,567)	$ 47,048
Tax effect of:		
Change in valuation allowance	271,342	105,528
Change in tax rate	(47,576)	(100,844)
Expired tax losses	(199,119)	–
Other	(9,080)	(732)
Income tax recovery (expense)	$ (113,000)	$ 51,000

9. INCOME TAXES (CONTINUED) :

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

	2009	2008
Future income tax assets:		
Non-capital losses carried forward	$ 660,731	$ 1,021,843
Furniture and equipment	88,816	89,538
Scientific research and development expenditures	90,788	94,420
Share issue costs	7,171	10,398
Total gross future income tax assets	847,506	1,216,199
Valuation allowance	(466,857)	(738,199)
	380,649	478,000
Future income tax liabilities:		
Forward contracts	(15,649)	–
Net future income tax assets	$ 365,000	$ 478,000

Future income tax assets are classified on the balance sheet as follows:

	2009	2008
As current asset	$ 86,000	$ –
As long-term asset	279,000	478,000
	$ 365,000	$ 478,000

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, 2009, evidence does not yet exist to support a conclusion that it is more likely than not that all future income tax assets will be realized. Accordingly, a valuation allowance has been recorded against those future tax assets which are not expected to be realized. In its determination of the valuation allowance, the Company considered forecasted future earnings and taxable income in the period during which losses are expected to expire or other temporary differences are expected to reverse.

The Company has non-capital loss carry forwards of approximately $2,366,000 which will expire as follows:

2010	$ 1,269,000
2014	991,000
2028	106,000

The Company also has Scientific Research and Development expenditures of approximately $363,000 which are available to offset taxable income indefinitely.

10. FINANCIAL INSTRUMENTS:

(a) Foreign currency risk:

A foreign currency risk will exist where the future cash flows of financial instruments will fluctuate because of changes in foreign currency exchange rates. The Company conducts a significant portion of its business activities in United States dollars (U.S.). Cash and cash equivalents, accounts receivable and accounts payable that are denominated in U.S. dollars will be affected by changes in the exchange rate between the Canadian dollar and the U.S. dollar.

10. FINANCIAL INSTRUMENTS (CONTINUED) :

The U.S. dollar carrying amount subject to exposure to such foreign currency risk at September 30, 2009 is as follows (U.S. dollar amounts):

	2009	2008
Cash and cash equivalents	$ 284,710	$ 89,888
Accounts receivable	563,320	650,128
Accounts payable	29,328	23,449

The Company periodically uses foreign currency forward contracts to fix the rate of exchange for Canadian dollars at future dates in order to reduce a portion of the Company's exposure to foreign currency fluctuations on U.S. dollar sales. At September 30, 2009, the Company had open forward currency contracts with a total commitment to sell US$1,400,000 at an average rate of CAD$1.102 to May 2010.

A 100 basis point change in the foreign exchange rate as at September 30, 2009 would have changed net loss by approximately $21,926 (2008 - $9,465).

(b) Credit risk:

The Company's exposure to credit risk will relate to uncertainties as to the timing and collectability of accounts receivable. The Company mitigates credit risk through regular credit assessment and collection policies. The Company reviews its trade receivable accounts regularly and will recognize an allowance for doubtful receivables should it be determined an account is not fully collectable. All amounts due are from long term regular customers who generally pay within agreed payment terms.

The carrying amount of financial assets represented by accounts receivable of $672,010 (2008 - $710,770) represents the maximum credit exposure. At September 30, 2009, nine customers (2008 - eight) represented approximately 94% (2008 - 92%) of accounts receivable.

The Company's cash and cash equivalents are held by a Canadian Schedule 1 bank.

(c) Liquidity risk:

Liquidity risk is the risk that the Company would not be able to meet its financial obligations as they fall due. The Company's cash flows have enabled it to satisfy its financial commitments for its current and long term debt, financial and operating leases, royalties and lease commitments. The Company maintains up-to-date budgets and/or forecasts of sales, costs and expenses related to its current and future products and the sales value impacted by fluctuations in the value of the U.S. dollar to enable the Company to manage its future operating cash position.

The following contractual maturities of financial obligations exist as at September 30, 2009.

	Carrying amount	Contractual cash flows	Within 1 year	2 to 4 years	5 years and over
Accounts payable and accrued liabilities	$ 449,413	$ 449,247	$ 449,247	$ –	$
Loan payable	12,438	12,438	4,146	8,292	–
Obligations under capital leases	31,420	34,341	23,070	11,271	–
Operating lease commitments	–	122,850	105,300	17,550	–
Royalty payments	–	590,544	102,260	426,280	62,004
	$ 493,271	$ 1,209,420	$ 684,023	$ 463,393	$ 62,004

10. FINANCIAL INSTRUMENTS (CONTINUED) :

(d) Fair values:

Financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, the carrying values of which are considered by management to approximate their fair values due to their ability for prompt liquidation and short-term to maturity. Financial instruments also includes loan payable and capital lease obligations, the fair value of which is not materially different from its carrying value based on market rates of interest.

The fair value of foreign currency forward contracts was an asset of $54,188 at September 30, 2009 (2008 - $6,500). This asset has been included in accrued receivables on the Company's balance sheet.

11. MANAGEMENT OF CAPITAL:

As at September 30, 2009, the Company's capital is composed of share capital.

The Company's objectives when managing capital are as follows:

(a) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

(b) to have sufficient cash, cash equivalents, short-term investments and marketable securities on hand to fund the Company's business plans.

The Company's primary uses of capital are to finance product development, market development, working capital, capital expenditures, and operating losses. The Company currently funds these requirements from internally generated cash flows, amounts drawn against its line of credit and proceeds from the offering of debt or equity securities. There were no changes to the Company's approach to capital management during the year ended September 30, 2009. The Company is not subject to externally imposed capital requirements.

12. SEGMENTED INFORMATION:

The Company's principal business operations relate to the development, manufacturing and sale of aircraft water treatment equipment and water systems and, accordingly, the Company has only one reportable segment. In 2009, sales to five customers (2008 - six customers) represent approximately 85% (2008 - 82%) of total revenue. All of the Company's furniture and equipment is located in Canada. In 2009, approximately 25% (2008 - 25%) of sales revenue was generated by customers in Canada and 75% (2008 - 75%) by customers in other countries, primarily the United States.

DIRECTORS & OFFICERS

Bruce W. Gowan – Chairman of the Board
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. He chairs Magellan's Governance & Nominating Committee and the Pension Committee and serves on the Audit Committee and the Human Resources and Compensation Committee. Mr. Gowan is also a director of Radiant Energy Corporation, a provider of airport de-icing systems and a director and past-chairman of the Board for Lakeland Holdings Ltd., a power generation and power distribution company, and of several community organizations.

David C. 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. 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. For the past 19 years Mr. Evans has financed numerous clients through private placements, public offerings, and debt issuances and has also advised on many merger and acquisition transactions. 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 professional designations of Chartered Financial Analyst (CFA), Chartered Business Valuator (CBV) and Accredited Senior Appraiser (ASA). Mr. Evans has also served as a Director of numerous public companies.

John J.D. Lawson - Director
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. 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.

Bruce G. MacCoubrey - Director
Bruce MacCoubrey completed a highly successful career with Air Canada spanning 35 years rising to the position of Vice-President, Strategic Business Services and Chief Purchasing Officer until 2003. Since leaving Air Canada, he has provided consulting services to many companies in the aviation industry. He has also held several positions on companies in the aviation industry. Mr. MacCoubrey is a graduate engineer and holds an MBA from McGill University.

Michael J. Piscatella - Director
Mr. Piscatella has over thirty-five years of aerospace business experience. He currently is the Senior Vice President of Business Development for Tailwind Technologies Inc. Previously he spent nine years with Goodrich Corporation, where he rose to become Group President, Aerostructures & Aviation Technical Services, and twenty-five years with Textron Lycoming, where he held senior positions in aftermarket support, operations and business development. He is also a member of the President's Advisory Board for Embry-Riddle Aeronautical University.

Malik Z.Talib – Director
Mr. Talib is a start-up entrepreneur, devoted to both business and community development. He has been an officer and director of various private and public companies engaged in communications and technology, mining, import/export, real estate development, health care and publishing. Mr. Talib was a Vancouver tax lawyer with Thorsteinssons in Vancouver when he launched eXI Wireless (now VeriChip Inc.) in 2000. He has also served as president and CEO of Corpanada Capital Inc., a venture capital company and merchant bank. Currently, he is the CEO of Cuco Resource Limited, a Mining company focused on exploration and mining of Copper and Cobalt.

Gerald P. Eiers – Vice-President & General Manager
Mr. Eiers 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.

Brian Ulrich - VP, Business Development & Engineering
Mr. Ulrich has an extensive background in project and product management. He has provided strong business and technical leadership for complex engineering projects in the power electronics, opto-electro-mechanical print prepress, space robotics and aerospace industries. Past positions have included Product Manager with Xantrex Technologies of Burnaby, BC, Product Manager with CreoScitex Inc. of Burnaby, BC, Senior Robotics Engineer with Davion Systems, St Bruno, PQ and Rocket Propulsion Design Engineer with Bristol Aerospace Ltd, of Winnipeg, MB.

C. Edward Butterfield - Chief Financial Officer and Corporate Secretary
Mr. Butterfield is a Chartered Accountant and has significant experience in managing the financial and business operations of public companies. Prior to joining IWG in September 2000, he served as CFO and Corporate Secretary with a major public aerospace component manufacturer he had joined in 1989. He has also served as the senior financial officer of several other public and private companies in the manufacturing, distribution and financial sectors.

For over 20 years, International Water-Guard has been improving the quality of water onboard 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.

CORPORATE INFORMATION

Headquarters
Unit One - 3771 North Fraser Way
Burnaby BC V5J 5G5

Phone: 604.255.5555
Fax: 604.255.5685

Email: investor@water.aero
Website: www.water.aero

Capital Structure
(as at January 8, 2010)
Authorized: an Unlimited number of Common Shares and an Unlimited number of Preference Shares
Issued: 39,340,694 Common Shares

Stock Exchange
TSX Venture Exchange Trading Symbol: “IWG”

Auditors
KPMG LLP
777 Dunsmuir Street
Vancouver BC V7Y 1K3

Transfer Agent
Computershare Trust
Company of Canada
3rd Floor, 510 Burrard Street
Vancouver BC V6C 3B9

Bank
TD Commercial Banking
1933 Willingdon Avenue
Burnaby, B.C. V5C 5J3

Legal Counsel
Gowling Lafleur Henderson LLP
Suite 2300, Five Bentall Centre
550 Burrard Street
Vancouver BC V6C 2B5

INTERNATIONAL Water·Guard

Annual General Meeting
The Company’s Annual General Meeting of shareholders will be held at 2:30 p.m. on Wednesday, March 10, 2010 at the Terminal City Club, 837 West Hastings Street, Vancouver, B.C.