

International Water-Guard Industries Inc. (TSX-V: IWG) – Corporate Restructuring Plans

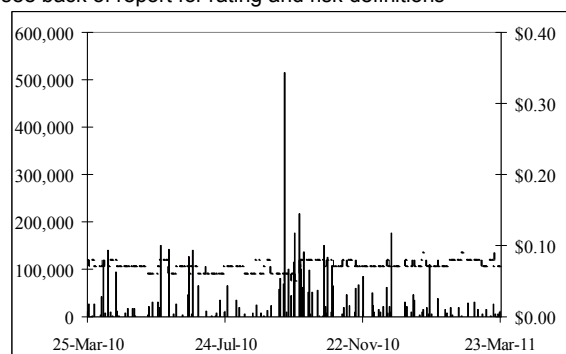
Sector/Industry: Aerospace Products and Services

www.water.aero

Market Data (as of March 25, 2011)

| | |
|---------------|-------------------|
| Current Price | C\$0.07 |
| Fair Value | C\$0.30 |
| Rating* | BUY |
| Risk* | 3 (Average) |
| 52 Week Range | C\$0.05 – C\$0.09 |
| Shares O/S | 38.13 mm |
| Market Cap | C\$2.67 mm |
| P/S (forward) | 0.56x |
| P/E (forward) | 11.28x |
| P/B | 0.91 |
| YoY Return | -12.5% |
| YoY TSX-V | 48.5% |

*see back of report for rating and risk definitions



Highlights

- IWG announced plans to restructure the company, wherein IWG will become a wholly owned subsidiary of a new public holding company, IWG Technologies Inc.
- The proposed transaction does not in any way affect the current shareholders' ownership in the company.
- We speculate this restructuring plan could be an indication that the company is close to completing an acquisition or asset sale.
- The proposed restructuring, we believe, would provide greater transparency and possibly unlock the value of IWG's operating business.
- We expect a recovery in the global business jet market based on the recovery in the U.S. economy and continued growth in the BRIC nations.
- The S&P 500 Aerospace & Defense Industry Index is up 15.34% in the last six months.
- We have maintained our revenue and EPS forecasts for FY2011, and FY2012, at \$4.80 million and \$0.24 million (EPS: \$0.01), and \$5.23 million and \$0.30 million (EPS: \$0.01), respectively.

Financial Summary (YE Sept 30)

| (C\$) | 2008 | 2009 | 2010 | 2011E | 2012E |
|-----------------|-----------|-----------|-----------|-----------|-----------|
| Revenue | 4,156,469 | 4,952,911 | 4,381,894 | 4,801,894 | 5,231,102 |
| Gross Margin | 53.75% | 63.11% | 54.35% | 56.00% | 56.00% |
| Net Income | (97,044) | 312,016 | 135,423 | 236,605 | 302,777 |
| EPS (basic) | (0.00) | 0.01 | 0.00 | 0.01 | 0.01 |
| Cash | 940,302 | 1,362,363 | 1,122,172 | 1,272,886 | 1,518,528 |
| Assets | 2,941,421 | 3,249,308 | 3,350,627 | 3,536,679 | 3,924,270 |
| Debt to Capital | 3.44% | 1.57% | 1.05% | 0.37% | 0.22% |
| ROE | -4.41% | 12.09% | 4.78% | 7.87% | 9.23% |
| ROIC | -6.11% | 20.87% | 8.32% | 12.93% | 16.00% |

International Water-Guard Industries Inc. ("IWG"), based in Burnaby, BC, Canada, focuses on the design, manufacture, sale, and service of aircraft potable water treatment equipment and systems. IWG has been selling its products to corporate, VIP and military transport manufacturers/operators around the world since 1982. The company is now seeking to break into the largest market of the aircraft industry, the commercial airline sector.

**Corporate
Restructuring
Plans**

On March 24, 2011, IWG announced plans to restructure the company, wherein IWG will become a wholly owned subsidiary of a new public holding company, IWG Technologies Inc. The proposed transaction does not in any way affect the current shareholders' ownership in the company. All shareholders will receive one share of the new company for each share of IWG. The new company will have the same capital structure as IWG. The proposed plan will be voted on by the shareholders at the next annual general meeting in April 2011.

IWG's CEO, David Fox, stated that the restructuring plan and the creation of IWG Technologies is an important step in building the company's future. According to the company, the restructuring plan would:

- separate the operating business and its regulatory certifications and permits from the public holding company
- facilitate future mergers, acquisitions or sale of assets
- separate the capital structure of each subsidiary
- provide greater transparency on each subsidiary's performance

We see this as a positive development for shareholders due to the following reasons:

- IWG has been evaluating various **corporate development and potential M&A opportunities** since December 2009. Although IWG has not announced any developments on that front, we speculate this restructuring plan could be an indication that they have made some progress and are possibly close to an acquisition or asset sale. **IWG had \$1.12 million in cash at the end of Q1-2011 and is in a sound position to pursue a minor acquisition.**
- **The restructuring plan could possibly unlock the value of IWG's operating business.** IWG's enterprise value is currently just \$0.40 million. Enterprise value, which is defined as market capitalization plus debt minus cash, is an indication of the value the market assigns a company's business/operations. **We believe an EV of \$0.40 million for a business which is expected to generate \$4.80 million in revenues and net income of \$0.24 million (EPS: \$0.01) in FY2011 is extremely low.**

The following table shows some of IWG's key valuation metrics and financial ratios compared to the Aerospace and Defence Industry.

| | Aerospace and Defense Industry IWG {based on 2011E} | | |
|------------------------------|---|--------|--------|
| Revenue multiples | Enterprise Value/Revenues | 1.1 | 0.08 |
| | Price/Sales | 0.6 | 0.56 |
| Margins | Gross Margins | 17.8% | 54.3% |
| | Net Margins | 3.9% | 4.9% |
| Earnings multiples | Enterprise Value/EBITDA | 8.8 | 0.94 |
| | P/E | 16.4 | 11.28 |
| | Return on Capital | 17.30% | 12.93% |
| Liquidity/Debt Ratios | Current Ratio | 1.6 | 8.80 |
| | Debt/Capital | 19.8% | 0.7% |

Source: Capital IQ and FRC

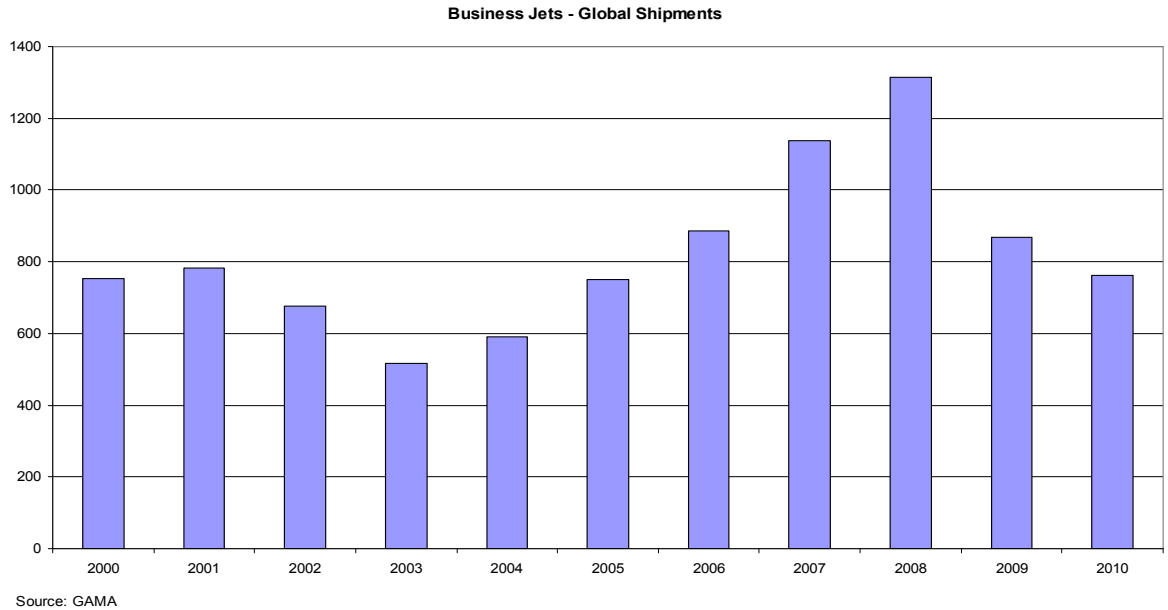
Note: Enterprise Value = Market Capitalization + Debt - Cash

As shown in the table, IWG's valuation metrics look extremely attractive compared to the Aerospace and Defence Industry averages. In addition, the company has a sound balance sheet with \$1.12 million in cash at the end of Q1. Working capital was \$2.35 million and the current ratio was 8.8x. Debt to capital at the end of Q1 was just 0.7% versus the industry average 19.8%.

The proposed restructuring, we believe, would provide greater transparency and possibly unlock the value of IWG's operating business.

Aerospace and Defense Industry

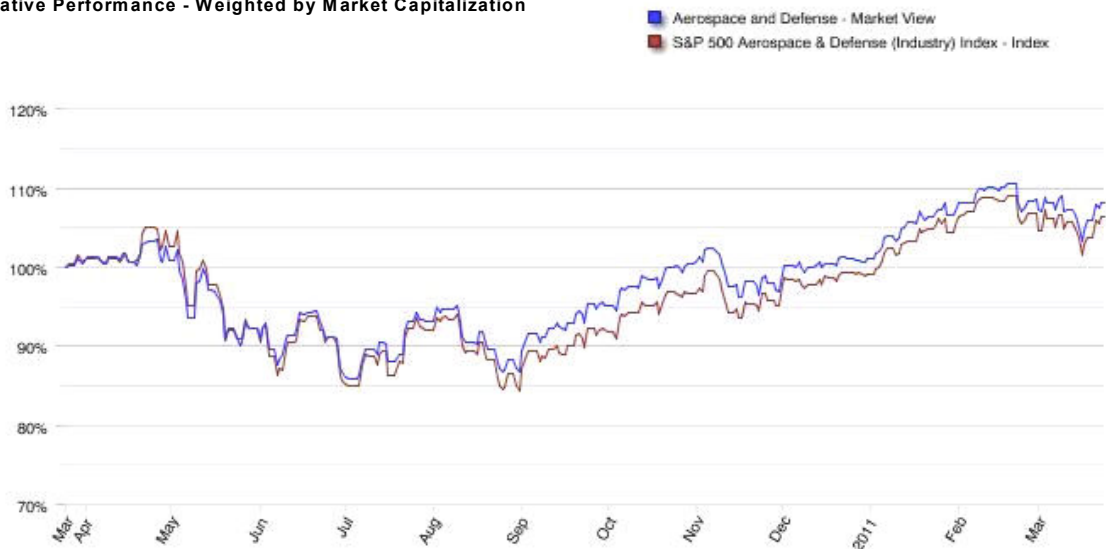
We expect a recovery in the global business jet market after the slump in 2009 and 2010. The following chart shows global business jet shipments since 2001. Shipments had dropped by 34% in 2009 (from 1,137 to 868) and by 12% in 2010 (from 868 to 763).



The recovery in the U.S. and continued growth in the BRIC nations are the primary reasons why we expect a recovery in the business jet sector. The IMF expects US GDP to grow at 3% in 2011, up from 2.8% in 2010. China and India are expected to grow at 9.6% and 8.4%, respectively.

The recovery in the sector has started to show in capital markets. The Aerospace and Defense Industry has picked up significantly since September 2010. The following chart shows that **the S&P 500 Aerospace & Defense Industry Index was up 15.34% in the last six months.**

Relative Performance - Weighted by Market Capitalization



S&P 500 Aerospace and Defense Industry Index - up 15.34% in the last 6 mo

Source: Capital IQ

Source: Capital IQ and FRC

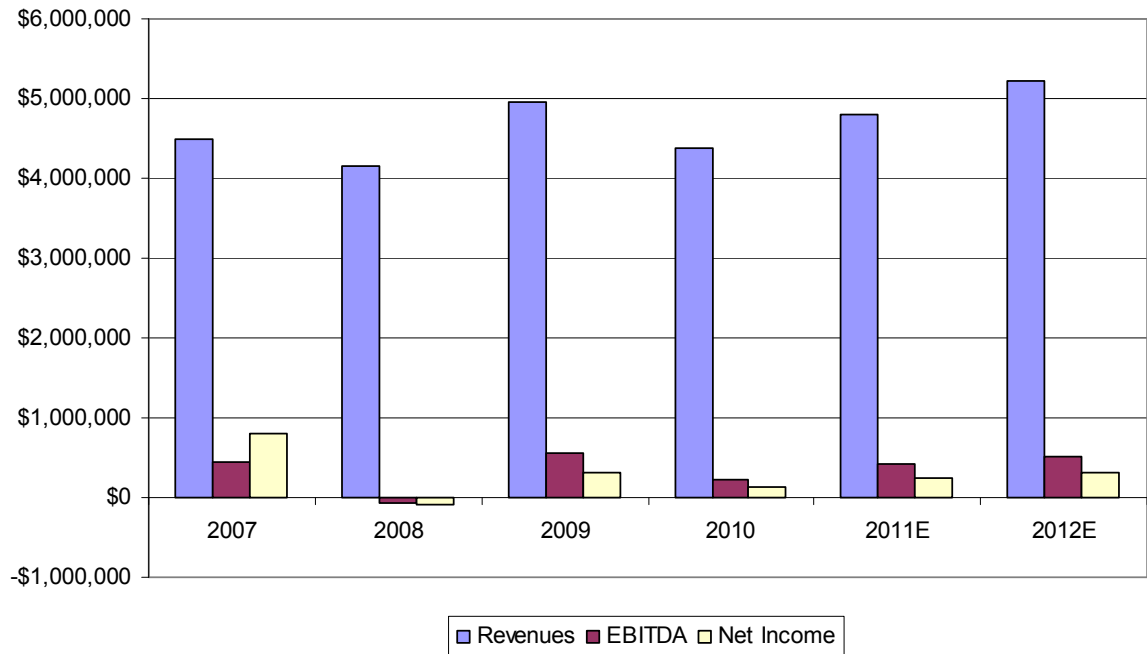
Bombardier Aerospace (TSX: BBD) just received the largest business aircraft sale in the company's history. The company received a firm order for 50 *Global* business jets with options for an additional 70 *Global* jets from Netjets Inc. The deal is valued at US\$2.8 billion for the firm orders, and over US\$6.7 billion if all the options are exercised.

Cessna Aircraft (subsidiary of Textron; NYSE: TXT) delivered 179 business jets in 2010. The company has announced that they will deliver at least as many during 2011.

The recovery in the industry is very positive for small companies such as IWG, as investors typically tend to avoid small/micro cap stocks during times of recession/slowdown.

Revenue and EPS Forecasts

We have maintained our revenue and EPS forecasts for FY2011, and FY2012, at \$4.80 million and \$0.24 million (EPS: \$0.01), and \$5.23 million and \$0.30 million (EPS: \$0.01), respectively.



Valuation and Rating

We have also maintained our fair value estimate on the company at \$0.30 per share. We reiterate our BUY rating and risk rating at 3 (Average).

Risks

The following risks, though not exhaustive, will cause our estimates to differ from actual results:

- Growth of the company is highly dependent on the overall health of the aerospace industry
- IWG's revenues are dependent on aircraft delivery rates and are subject to industry cycles and customer adoption of its products.

- A significant portion of revenues is non-recurring.
- The company has yet to break into the commercial aircraft sector, the largest market in the aerospace industry.
- Foreign exchange fluctuation risks: Most of IWG's sales are in US dollars.

Appendix

STATEMENTS OF OPERATIONS

| (in C\$) | 2008 | 2009 | 2010 | 2011E | 2012E |
|--|------------------|------------------|------------------|------------------|------------------|
| Sales | 4,156,469 | 4,952,911 | 4,381,894 | 4,801,894 | 5,231,102 |
| COGS | 1,922,205 | 1,827,070 | 2,000,349 | 2,112,833 | 2,301,685 |
| Gross Profit | 2,234,264 | 3,125,841 | 2,381,545 | 2,689,061 | 2,929,417 |
| Expenses | | | | | |
| Selling Expenses | 328,773 | 427,924 | 449,708 | 456,180 | 496,955 |
| Research&Development | 772,194 | 875,219 | 421,517 | 474,566 | 498,295 |
| General & Administration | 1,186,442 | 1,230,689 | 1,264,151 | 1,298,523 | 1,363,449 |
| Stock Option Compensation | 18,408 | 35,396 | 27,364 | 34,317 | 52,311 |
| EBITDA | (71,553) | 556,613 | 218,805 | 425,475 | 518,408 |
| Amortization | 64,758 | 60,389 | 56,969 | 57,091 | 55,350 |
| EBIT | (136,311) | 496,224 | 161,836 | 368,384 | 463,058 |
| Interest & Bank Charges | 11,733 | 16,454 | 19,715 | 9,239 | 3,470 |
| | - | | | | |
| Earnings from operations, before undernoted | (148,044) | 479,770 | 142,121 | 359,145 | 459,588 |
| Government Assistance | | | | | |
| Gains on settlement of notes and accounts payable | - | - | - | - | - |
| Gain on sale of commercial division assets | - | - | - | - | - |
| Foreign Exchange | | (54,754) | 47,202 | | |
| Write-down of assets and costs | - | - | - | - | - |
| EBT | (148,044) | 425,016 | 189,323 | 359,145 | 459,588 |
| Taxes/(Income Tax Recovery) | (51,000) | 113,000 | 53,900 | 122,540 | 156,811 |
| Net Earnings for the eperiod | (97,044) | 312,016 | 135,423 | 236,605 | 302,777 |
| EPS | (0.00) | 0.01 | 0.00 | 0.01 | 0.01 |

| BALANCE SHEETS (in C\$) | 2008 | 2009 | 2010 | 2011E | 2012E |
|---|------------------|------------------|------------------|------------------|------------------|
| Assets | | | | | |
| Cash | 940,302 | 1,362,363 | 1,122,172 | 1,272,886 | 1,518,528 |
| Accounts receivable | 710,770 | 672,010 | 880,150 | 847,564 | 839,383 |
| Inventory | 496,335 | 577,993 | 569,976 | 574,200 | 625,523 |
| Prepaid Expenses | 65,407 | 42,807 | 75,696 | 46,487 | 50,643 |
| Future Income Tax | | 86,000 | 70,000 | 70,000 | 70,000 |
| Current Assets | 2,212,814 | 2,741,173 | 2,717,994 | 2,811,137 | 3,104,077 |
| Equipment & Furniture | 250,607 | 229,135 | 213,363 | 186,272 | 160,922 |
| Deferred Dev Costs and foreign exchange loss | | | 178,170 | 298,170 | 418,170 |
| Future income tax assets | 478,000 | 279,000 | 241,100 | 241,100 | 241,100 |
| Total Assets | 2,941,421 | 3,249,308 | 3,350,627 | 3,536,679 | 3,924,270 |
| Liabilities & Shareholders' Equity | | | | | |
| Accounts Payables & Accrued Liabilities | 449,247 | 449,413 | 409,381 | 423,978 | 460,337 |
| Demand / Factoring Loan | - | - | - | - | - |
| Customer Deposits, Bank and Shareholder's loan | | | | | |
| Current portion of capital lease obligations and loan | 40,593 | 25,757 | 19,231 | 3,855 | - |
| Current portion of notes payable | | | | | |
| Current Liabilities | 489,840 | 475,170 | 428,612 | 427,834 | 460,337 |
| Convertible Debentures | | | | | |
| Obligations under capital lease and other loan | 45,206 | 18,101 | 11,566 | 7,711 | 7,711 |
| Notes and Loans payable | | | | | |
| Shareholder's Equity | | | | | |
| Share Capital | 8,108,202 | 8,111,487 | 8,103,112 | 8,022,876 | 8,022,876 |
| Contributed surplus | 165,803 | 200,164 | 227,528 | 261,845 | 314,156 |
| Deficit | (5,867,630) | (5,555,614) | (5,420,191) | (5,183,586) | (4,880,810) |
| Total Liabilities & Shareholders' Equity | 2,941,421 | 3,249,308 | 3,350,627 | 3,536,679 | 3,924,270 |

STATEMENTS OF CASH FLOWS

| (in C\$) | 2008 | 2009 | 2010 | 2011E | 2012E |
|--|-----------------|------------------|------------------|------------------|------------------|
| Operating Activities | | | | | |
| Net earnings for the period | (97,044) | 312,016 | 135,423 | 236,605 | 302,777 |
| Items not involving cash | | | | | |
| Income tax recovery | (51,000) | 113,000 | 53,900 | | |
| Gain on liabilities and sale of commercial division | | | | | |
| Unrealized foreign exchange and other gains | (6,500) | (47,688) | 24,024 | | |
| Compensation related to stock option plan | 18,408 | 35,396 | 27,364 | 34,317 | 52,311 |
| Write-downs | | | | | |
| Interest accrued (on NP, on shareholder loan) | | | | | |
| Amortization and equipment write-down | 64,758 | 60,388 | 56,969 | 57,091 | 55,350 |
| | (71,378) | 473,112 | 297,680 | 328,012 | 410,438 |
| Changes in non-cash operating working capital | | | | | |
| Accounts receivable | 17,008 | 86,448 | (232,164) | 32,586 | 8,180 |
| Inventory | 145,897 | (81,658) | 8,017 | (4,224) | (51,324) |
| Prepaid expenses | (27,438) | 22,600 | (32,889) | 29,209 | (4,155) |
| Accounts payable and accrued liabilities | 24,175 | 166 | (40,032) | 14,597 | 36,359 |
| Customer Deposits | - | - | - | - | - |
| | 159,642 | 27,556 | (297,068) | 72,169 | (10,940) |
| Cash from from (used in) operations | 88,264 | 500,668 | 612 | 400,181 | 399,498 |
| Investing activities | | | | | |
| Purchase of furniture and equipment | (47,173) | (38,916) | (25,074) | (30,000) | (30,000) |
| Product development costs incurred | | | (178,170) | (120,000) | (120,000) |
| Proceeds on sale of commercial division | | | | | |
| Deferred Development Costs | | | | | |
| Purchase of equipment and leaseholds | (47,173) | (38,916) | (203,244) | (150,000) | (150,000) |
| Financing activities | | | | | |
| Proceeds (repayments) of demand loans | | | | | |
| Proceeds (repayments) of payables and leases | (33,801) | (41,941) | (29,184) | (19,231) | (3,855) |
| Convertible debenture issued | | | | | |
| Issue of common share for cash | 494,080 | 2,250 | | - | |
| Purchase of capital stock | | | (8,375) | (80,236) | |
| | 460,279 | (39,691) | (37,559) | (99,467) | (3,855) |
| Increase (decrease) in cash | 501,370 | 422,061 | (240,191) | 150,714 | 245,642 |
| Cash beginning of period | 438,932 | 940,302 | 1,362,363 | 1,122,172 | 1,272,886 |
| Cash end of period | 940,302 | 1,362,363 | 1,122,172 | 1,272,886 | 1,518,528 |

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

Disclaimers and Disclosure

The opinions expressed in this report are the true opinions of the analyst about this company and industry. Any "forward looking statements" are our best estimates and opinions based upon information that is publicly available and that we believe to be correct, but we have not independently verified with respect to truth or correctness. There is no guarantee that our forecasts will materialize. Actual results will likely vary. The analyst and Fundamental Research Corp. "FRC" does not own any shares of the subject company, does not make a market or offer shares for sale of the subject company, and does not have any investment banking business with the subject company. Fees were paid by IWG to FRC. The purpose of the fee is to subsidize the high costs of research and monitoring. FRC takes steps to ensure independence including setting fees in advance and utilizing analysts who must abide by CFA Institute Code of Ethics and Standards of Professional Conduct. Additionally, analysts may not trade in any security under coverage. Our full editorial control of all research, timing of release of the reports, and release of liability for negative reports are protected contractually. To further ensure independence, IWG has agreed to a minimum coverage term including four updates. Coverage can not be unilaterally terminated. Distribution procedure: our reports are distributed first to our web-based subscribers on the date shown on this report then made available to delayed access users through various other channels for a limited time. The performance of FRC's research is ranked by Investars. Full rankings and are available at www.investars.com.

The distribution of FRC's ratings are as follows: BUY (73%), HOLD (7%), SELL (4%), SUSPEND (16%).

To subscribe for real-time access to research, visit <http://www.researchfrc.com/subscription.htm> for subscription options.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence on suppliers; systematic market risks and other risks discussed in the Company's periodic report filings, including interim reports, annual reports, and annual information forms filed with the various securities regulators. By making these forward looking statements, Fundamental Research Corp. and the analyst/author of this report undertakes no obligation to update these statements for revisions or changes after the date of this report. A report initiating coverage will most often be updated quarterly while a report issuing a rating may have no further or less frequent updates because the subject company is likely to be in earlier stages where nothing material may occur quarter to quarter.

Fundamental Research Corp DOES NOT MAKE ANY WARRANTIES, EXPRESSED OR IMPLIED, AS TO RESULTS TO BE OBTAINED FROM USING THIS INFORMATION AND MAKES NO EXPRESS OR IMPLIED WARRANTIES OR FITNESS FOR A PARTICULAR USE. ANYONE USING THIS REPORT ASSUMES FULL RESPONSIBILITY FOR WHATEVER RESULTS THEY OBTAIN FROM WHATEVER USE THE INFORMATION WAS PUT TO. ALWAYS TALK TO YOUR FINANCIAL ADVISOR BEFORE YOU INVEST. WHETHER A STOCK SHOULD BE INCLUDED IN A PORTFOLIO DEPENDS ON ONE'S RISK TOLERANCE, OBJECTIVES, SITUATION, RETURN ON OTHER ASSETS, ETC. ONLY YOUR INVESTMENT ADVISOR WHO KNOWS YOUR UNIQUE CIRCUMSTANCES CAN MAKE A PROPER RECOMMENDATION AS TO THE MERIT OF ANY PARTICULAR SECURITY FOR INCLUSION IN YOUR PORTFOLIO. This REPORT is solely for informative purposes and is not a solicitation or an offer to buy or sell any security. It is not intended as being a complete description of the company, industry, securities or developments referred to in the material. Any forecasts contained in this report were independently prepared unless otherwise stated, and HAVE NOT BEEN endorsed by the Management of the company which is the subject of this report. Additional information is available upon request. THIS REPORT IS COPYRIGHT. YOU MAY NOT REDISTRIBUTE THIS REPORT WITHOUT OUR PERMISSION. Please give proper credit, including citing Fundamental Research Corp and/or the analyst, when quoting information from this report.

The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.