



INTERNATIONAL  
**Water·Guard**

**Interim Financial Statements**

**INTERNATIONAL WATER-GUARD  
INDUSTRIES INC.**

**Three months ended December 31, 2008 and 2007**

**Interim Financial Statements of**

**INTERNATIONAL WATER-GUARD INDUSTRIES INC.**

**Notice of no auditor review of interim financial statements to December 31, 2008**

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

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

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

**INTERNATIONAL WATER-GUARD INDUSTRIES INC.**  
**BALANCE SHEETS**

	December 31 <u>2008</u>	September 30 <u>2008</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 947,557	\$ 940,302
Accounts receivable	752,489	710,770
Inventory	510,662	496,335
Prepaid expenses	<u>59,772</u>	<u>65,407</u>
	2,270,480	2,212,815
Furniture and equipment	<u>250,128</u>	<u>250,606</u>
Future income tax assets	<u>454,000</u>	<u>478,000</u>
	<u>\$ 2,974,608</u>	<u>\$ 2,941,421</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 429,997	\$ 449,247
Current portion of capital lease obligations and loan	<u>39,103</u>	<u>40,593</u>
	<u>469,100</u>	<u>489,840</u>
Capital lease obligations and loan payable	<u>31,151</u>	<u>45,206</u>
Shareholders' equity:		
Share capital	8,111,487	8,108,202
Contributed surplus	170,380	165,803
Deficit	<u>(5,807,510)</u>	<u>(5,867,630)</u>
	<u>2,474,357</u>	<u>2,406,375</u>
	<u>\$ 2,974,608</u>	<u>\$ 2,941,421</u>

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

On behalf of the Board:

"J. D. Lawson"                      Director

"D. C. Fox"                            Director

**INTERNATIONAL WATER-GUARD INDUSTRIES INC.**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
**Three months ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Sales	\$ 1,214,916	\$ 854,384
Cost of goods sold	<u>463,376</u>	<u>496,988</u>
Gross profit	<u>751,540</u>	<u>357,396</u>
Expenses		
Selling expenses	127,294	58,092
Engineering & product development	209,061	139,095
General & administration	313,039	265,498
Amortization	14,159	14,815
Interest	<u>3,867</u>	<u>2,587</u>
	<u>667,420</u>	<u>480,087</u>
Income (loss) before taxes	<u>84,120</u>	<u>(122,691)</u>
Income tax (expense) recovery	<u>(24,000)</u>	<u>42,000</u>
Net income (loss) for the period	60,120	(80,691)
Deficit, beginning of period	<u>5,867,630</u>	<u>5,770,586</u>
Deficit, end of period	<u><u>\$ 5,807,510</u></u>	<u><u>\$ 5,851,277</u></u>
Earnings (loss) per share amounts		
Basic	0.2¢	(0.2)¢
Fully diluted	0.2¢	(0.2)¢
Weighted average number of shares		
Basic	39,293,694	34,108,694
Fully diluted	<u>39,293,694</u>	<u>34,627,732</u>

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See accompanying notes to financial statements.

# INTERNATIONAL WATER-GUARD INDUSTRIES INC.

## STATEMENTS OF CASH FLOWS

Three months ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from (used by):		
Operations:		
Net income (loss) for the period	\$ 60,120	\$ (80,691)
Items not involving cash -		
Income tax expense (recovery)	24,000	(42,000)
Stock based compensation	5,612	4,230
Change in value of forward exchange contract	9,000	-
Amortization	<u>14,159</u>	<u>14,815</u>
	112,891	(103,646)
Changes in non-cash operating working capital:		
Accounts receivable	(50,720)	(20,337)
Inventory	(14,327)	23,732
Prepaid expenses	5,635	(37,285)
Accounts payable and accrued liabilities	<u>(19,250)</u>	<u>(81,959)</u>
	<u>34,230</u>	<u>(219,495)</u>
Investing activities:		
Purchase of capital assets	<u>(13,681)</u>	<u>(18,552)</u>
Financing activities:		
Repayment of capital lease obligations and loan payable	(15,545)	(9,363)
Issuance of common shares	<u>2,250</u>	<u>-</u>
	<u>(13,295)</u>	<u>(9,363)</u>
Increase (decrease) in cash	7,254	(247,410)
Cash, beginning of period	<u>940,302</u>	<u>438,932</u>
Cash, end of period	<u>\$ 947,557</u>	<u>\$ 191,522</u>
Supplementary information		
Interest paid	\$ 3,867	\$ 2,586
Non- cash transactions:		
Equipment purchased under capital lease	\$ -	\$ 32,007

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See accompanying notes to financial statements.

**INTERNATIONAL WATER-GUARD INDUSTRIES INC.**  
**STATEMENTS OF COST OF GOODS SOLD**  
**Three months ended December 31, 2008, and 2007**

	<u>2008</u>	<u>2007</u>
Opening inventory	\$ 496,335	\$ 642,232
Manufacturing costs:		
Materials	242,152	249,157
Direct labour, freight and other	103,010	93,845
Manufacturing overhead	<u>132,542</u>	<u>130,254</u>
	<u>477,703</u>	<u>473,256</u>
Goods available for sale	974,038	1,115,488
Closing inventory	<u>510,662</u>	<u>618,500</u>
Cost of goods sold	<u>\$ 463,376</u>	<u>\$ 496,988</u>

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

# INTERNATIONAL WATER-GUARD INDUSTRIES INC.

## Notes to Interim Financial Statements December 31, 2008

### 1. Significant accounting policies:

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

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

### 2. Equipment and furniture:

Manufacturing equipment	\$ 101,198
Furniture and office equipment	374,051
Leasehold improvements	<u>101,072</u>
	554,566
Accumulated amortization	<u>(304,438)</u>
Net book value	<u>\$ 250,128</u>

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

Obligations under capital leases	\$57,816
Loan Payable	<u>12,438</u>
	70,254
Current portion	<u>(39,103)</u>
Long term portion	<u>\$31,151</u>

The company's capital lease agreements have financed equipment acquired for the growth in operations. These lease obligations have terms from 7- 30 months, each with purchase options approximating 10% of the equipment cost at the completion of the lease period. The present value of a lease obligation is recorded as a liability, with the current portion included in current liabilities.

### 4. Share capital:

a) Authorized capital of the Company as at December 31, 2008 includes an unlimited number of both common shares and preferred shares, of which 39,340,694 common shares and no preferred shares were issued and outstanding.

b) Under the Company's stock option plan, as of December 31, 2008 there were 2,894,500 options outstanding held by directors, officers and employees. These options are exercisable at various dates to Jan 8, 2013, as follows:

Exercise Price Per Share	Number Outstanding	Average Remaining Life in Months	Number Exercisable at June 30 <sup>th</sup>
\$0.21	580,000	40.8	580,000
\$0.145	215,000	38.1	215,000
\$0.13	390,000	49.0	156,000
\$0.12	280,000	31.4	70,000
\$0.10	1,069,500	43.6	322,500
\$0.09	360,000	7.3	360,000
Total	2,894,500	37.6	1,527,500

5. Commitments and contingencies:

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