



INTERNATIONAL  
**Water·Guard**

Interim Financial Statements of

**INTERNATIONAL WATER-GUARD  
INDUSTRIES INC.**

Six months ended March 31, 2009

**Interim Financial Statements of**

**INTERNATIONAL WATER-GUARD INDUSTRIES INC.**

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

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

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

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

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

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

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

On behalf of the Board:

"J. D. Lawson"                      Director

"D. C. Fox"                          Director

**INTERNATIONAL WATER-GUARD INDUSTRIES INC.**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
**Six months ended March 31**

	Three months ended March 31		Six months ended March 31	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Sales	\$ 1,325,494	\$ 856,064	\$ 2,540,410	\$ 1,710,447
Cost of goods sold	<u>473,219</u>	<u>427,248</u>	<u>936,595</u>	<u>924,236</u>
Gross profit	<u>852,275</u>	<u>428,816</u>	<u>1,603,815</u>	<u>786,211</u>
Expenses:				
Selling expenses	115,805	82,258	243,099	124,750
Engineering and product development	297,160	194,313	506,221	349,008
General, administrative and occupancy	358,372	285,886	671,411	547,155
Amortization	15,184	15,933	29,343	30,747
Interest	4,589	3,385	8,456	5,971
	<u>791,110</u>	<u>585,876</u>	<u>1,458,530</u>	<u>1,065,962</u>
Income (loss) before taxes	61,165	(157,060)	145,285	(279,751)
Income tax (expense) recovery	<u>(22,000)</u>	<u>54,300</u>	<u>(46,000)</u>	<u>96,300</u>
Net income (loss) for the period	39,165	(102,760)	99,285	(183,451)
Deficit, beginning of period	<u>5,807,510</u>	<u>5,851,277</u>	<u>5,867,630</u>	<u>5,770,586</u>
Deficit, end of period	<u>\$ 5,768,345</u>	<u>\$ 5,954,037</u>	<u>\$ 5,768,345</u>	<u>\$ 5,954,037</u>
Earnings (loss) per share amounts:				
Basic	<u>0.1 ¢</u>	<u>(0.3) ¢</u>	<u>0.3 ¢</u>	<u>(0.5) ¢</u>
Diluted	<u>0.1 ¢</u>	<u>(0.3) ¢</u>	<u>0.3 ¢</u>	<u>(0.5) ¢</u>
Weighted average shares outstanding				
Basic	<u>39,340,694</u>	<u>34,141,783</u>	<u>39,340,694</u>	<u>34,125,238</u>
Diluted	<u>39,340,694</u>	<u>34,660,821</u>	<u>39,340,694</u>	<u>34,594,738</u>

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See accompanying notes to financial statements.

**INTERNATIONAL WATER-GUARD INDUSTRIES INC.**  
**STATEMENTS OF CASH FLOWS**  
**Six months ended March 31**

	Three months ended March 31		Six months ended March 31	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Cash flows from (used by):				
Operations:				
Net earnings (loss) for the period	\$ 39,165	\$ (102,760)	\$ 99,285	\$ (183,451)
Items not involving cash -				
Income tax expense (recovery)	22,000	(54,300)	46,000	\$ (96,300)
Stock based compensation	7,509	4,101	13,121	\$ 8,331
Change in value of foreign exchange contracts	2,800	-	11,800	-
Amortization	15,184	15,933	29,343	30,747
	<u>86,658</u>	<u>(137,026)</u>	<u>199,549</u>	<u>(240,673)</u>
Changes in non-cash operating working capital:				
Accounts receivable	16,536	125,260	(34,183)	104,923
Inventory	(181,321)	31,517	(195,648)	55,249
Prepaid expenses	16,454	(9,179)	22,089	(46,464)
Accounts payable and accrued liabilities	78,644	(94,286)	59,393	(176,246)
	<u>16,971</u>	<u>(83,714)</u>	<u>51,200</u>	<u>(303,211)</u>
Investments:				
Purchase of furniture and equipment	<u>(12,084)</u>	<u>(23,508)</u>	<u>(25,764)</u>	<u>(39,231)</u>
Financing:				
Repayment of capital lease obligations and loan payable	(9,518)	(7,918)	(25,062)	(20,108)
Issuance of capital stock	-	9,979	2,250	9,979
	<u>(9,518)</u>	<u>2,061</u>	<u>(22,812)</u>	<u>(10,129)</u>
Increase (decrease) in cash	(4,631)	(105,161)	2,624	(352,571)
Cash, beginning of period	<u>947,557</u>	<u>191,522</u>	<u>940,302</u>	<u>438,932</u>
Cash, end of period	<u>\$ 942,926</u>	<u>\$ 86,361</u>	<u>\$ 942,926</u>	<u>\$ 86,361</u>
Supplementary information				
Interest paid	\$ 4,589	\$ 3,385	\$ 8,456	\$ 5,971
Non- cash transactions:				
Equipment purchased under capital lease	\$ -	\$ -	\$ -	\$ 34,835

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

# INTERNATIONAL WATER-GUARD INDUSTRIES INC.

## STATEMENTS OF COST OF GOODS SOLD

Six months ended March 31

	Three months ended March 31		Six months ended March 31	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Opening inventory	\$ 510,662	\$ 618,500	\$ 496,335	\$ 642,232
Manufacturing costs:				
Materials	413,801	154,754	665,755	398,181
Direct labour, freight and other	92,414	105,174	185,621	204,750
Manufacturing overhead	<u>148,325</u>	<u>135,803</u>	<u>280,867</u>	<u>266,056</u>
Cost of goods available for sale	1,165,202	1,014,231	1,628,578	1,511,219
Closing inventory	<u>691,983</u>	<u>586,983</u>	<u>691,983</u>	<u>586,983</u>
Cost of goods sold	<u>\$ 473,219</u>	<u>\$ 427,248</u>	<u>\$ 936,595</u>	<u>\$ 924,236</u>

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

# INTERNATIONAL WATER-GUARD INDUSTRIES INC.

## Notes to Interim Financial Statements March 31, 2009

1. Significant accounting policies:

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

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

2. Equipment and furniture:

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

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

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

The company's capital lease agreements have financed equipment acquired for the growth in operations. These lease obligations have terms from 4 to 34 months, each with purchase options approximating 10% of the equipment cost at the completion of the lease period. The present value of a lease obligation is recorded as a liability, with the current portion included in current liabilities.

4. Share capital:

a) Authorized capital of the Company as at March 31, 2009 includes an unlimited number of both common shares and preferred shares, of which 39,340,694 common shares and no preferred shares were issued and outstanding.

b) Under the Company's stock option plan, as of March 31, 2008 there were 2,874,500 options outstanding held by directors, officers and employees. These options are exercisable at various dates to January 8, 2013, as follows:

Exercise Price Per Share	Number Outstanding	Average Remaining Life in Months	Number Exercisable at March 31st
\$0.21	580,000	37.8	580,000
\$0.145-0.15	215,000	35.1	215,000
\$0.13	390,000	46.0	156,000
\$0.12	280,000	28.5	70,000
\$0.10	1,089,500	40.9	322,500
\$0.09	<u>320,000</u>	<u>4.9</u>	<u>320,000</u>
Total	2,874,500	34.9	1,663,500

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

5. Adoption of new accounting standards:

a) Inventory:

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

b) Goodwill and Intangible Assets:

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

c) Financial presentation:

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

6. Future accounting changes:

International Financial Reporting Standards:

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

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

7. Commitments and contingencies:

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