



INTERNATIONAL  
**Water-Guard**

Interim Financial Statements of

**INTERNATIONAL WATER-GUARD  
INDUSTRIES INC.**

Nine months ended June 30 , 2009

**Interim Financial Statements of**

## **INTERNATIONAL WATER-GUARD INDUSTRIES INC.**

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

	June 30 <u>2009</u>	September 30 <u>2008</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,108,997	\$ 940,302
Accounts receivable	558,005	710,770
Inventory	602,508	496,335
Prepaid expenses	<u>23,867</u>	<u>65,407</u>
	2,293,377	2,212,814
 Equipment and furniture	 235,098	 250,607
Future income tax asset	<u>420,000</u>	<u>478,000</u>
	 <u>\$ 2,948,475</u>	 <u>\$ 2,941,421</u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 347,712	\$ 449,247
Current portion of capital lease obligations and loan	<u>29,254</u>	<u>40,593</u>
	<u>376,966</u>	<u>489,840</u>
 Capital lease obligations and loan payable	 <u>22,108</u>	 <u>45,206</u>
	<u>399,074</u>	<u>535,046</u>
 Shareholders' equity:		
Share capital	8,111,486	8,108,202
Contributed surplus	183,502	165,803
Deficit	<u>(5,745,587)</u>	<u>(5,867,630)</u>
	<u>2,549,401</u>	<u>2,406,375</u>
	 <u>\$ 2,948,475</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:

"B. W. Gowan"                      Director

"D. C. Fox"                          Director

**INTERNATIONAL WATER-GUARD INDUSTRIES INC.**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
**Nine months ended June 30**

	Three months ended June 30		Nine months ended June 30	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Sales	\$ 1,146,415	\$ 1,292,745	\$ 3,686,825	\$ 3,003,193
Cost of goods sold	<u>479,779</u>	<u>532,030</u>	<u>1,416,374</u>	<u>1,456,266</u>
Gross profit	<u>666,636</u>	<u>760,715</u>	<u>2,270,451</u>	<u>1,546,927</u>
Expenses:				
Selling expenses	103,071	109,787	346,169	234,537
Research & development	194,141	204,735	700,362	553,743
General & administration	314,516	356,473	985,927	911,960
Amortization	15,342	16,437	44,685	47,184
Interest & bank charges	<u>4,873</u>	<u>2,795</u>	<u>13,265</u>	<u>8,766</u>
	<u>631,942</u>	<u>690,227</u>	<u>2,090,408</u>	<u>1,756,189</u>
Earnings (loss) before income taxes	34,694	70,488	180,043	(209,263)
Income tax recovery (expense)	<u>(12,000)</u>	<u>(24,150)</u>	<u>(58,000)</u>	<u>72,150</u>
Net earnings (loss) for the period	22,694	46,338	122,043	(137,113)
Deficit, beginning of period	<u>5,768,281</u>	<u>5,954,037</u>	<u>5,867,630</u>	<u>5,770,586</u>
Deficit, end of period	<u>\$ 5,745,587</u>	<u>\$ 5,907,699</u>	<u>\$ 5,745,587</u>	<u>\$ 5,907,699</u>
Earnings (loss) per share amounts:				
Basic	<u>0.1¢</u>	<u>0.1¢</u>	<u>0.4¢</u>	<u>(0.4¢)</u>
Diluted	<u>0.1¢</u>	<u>0.1¢</u>	<u>0.4¢</u>	<u>(0.4¢)</u>
Weighted average shares outstanding				
Basic	<u>39,340,694</u>	<u>34,156,227</u>	<u>39,340,694</u>	<u>34,156,227</u>
Diluted	<u>39,340,694</u>	<u>35,869,553</u>	<u>39,340,694</u>	<u>35,869,553</u>

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See accompanying notes to financial statements.

# INTERNATIONAL WATER-GUARD INDUSTRIES INC.

## STATEMENTS OF CASH FLOWS

Nine months ended June 30

	Three months ended June 30		Nine months ended June 30	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Cash flows from (used by):				
Operating activities:				
Net earnings (loss) for the period	\$ 22,694	\$ 46,338	\$ 122,043	\$ (137,113)
Items not involving cash -				
Income tax expense (recovery)	12,000	24,150	58,000	(72,150)
Compensation related to stock option plan	5,612	4,101	18,733	12,432
Change in value of foreign exchange contracts	43,732	-	55,532	-
Amortization	<u>15,342</u>	<u>16,437</u>	<u>44,685</u>	<u>47,184</u>
	99,379	91,026	298,993	(149,647)
Changes in non-cash operating working capital:				
Accounts receivable	131,417	(317,057)	97,233	(212,133)
Inventory	89,475	60,107	(106,173)	115,356
Prepaid expenses	19,451	37,811	41,540	(8,653)
Accounts payable and accrued liabilities	<u>(160,927)</u>	<u>133,904</u>	<u>(101,534)</u>	<u>(42,342)</u>
Cash flow from operations	<u>178,795</u>	<u>5,791</u>	<u>230,059</u>	<u>(297,419)</u>
Investing activities:				
Purchase of equipment and leaseholds	<u>(3,412)</u>	<u>3,637</u>	<u>(29,177)</u>	<u>(35,594)</u>
Financing activities:				
Issuance of capital stock	-	12,501	2,250	22,479
Proceeds (repayment) of other loans payable	<u>(9,376)</u>	<u>(6,933)</u>	<u>(34,438)</u>	<u>(27,042)</u>
	<u>(9,376)</u>	<u>5,568</u>	<u>(32,187)</u>	<u>(4,563)</u>
Increase (decrease) in cash	166,007	14,996	168,695	(337,575)
Cash beginning of period	<u>942,990</u>	<u>86,361</u>	<u>940,302</u>	<u>438,932</u>
Cash end of period	<u>\$ 1,108,997</u>	<u>\$ 101,357</u>	<u>\$ 1,108,997</u>	<u>\$ 101,357</u>
Supplemental information:				
Non-cash purchase of equipment using capital lease obligation	<u>\$ -</u>	<u>\$ 17,571</u>	<u>\$ -</u>	<u>\$ 52,405</u>

These financial statements have been prepared by management and are unaudited.

See accompanying notes to financial statements.

# INTERNATIONAL WATER-GUARD INDUSTRIES INC.

## STATEMENTS OF COST OF GOODS SOLD

Nine months ended June 30

	Three months ended June 30		Nine months ended June 30	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Opening inventory	\$ 691,983	\$ 586,983	\$ 496,335	\$ 642,232
Manufacturing costs:				
Materials	170,564	231,361	813,869	638,754
Labour, freight and other	89,163	102,821	297,235	298,359
Manufacturing overhead	<u>130,576</u>	<u>137,741</u>	<u>411,443</u>	<u>403,797</u>
Cost of goods available for sale	1,082,287	1,058,906	2,018,882	1,983,142
Closing inventory	<u>602,508</u>	<u>526,876</u>	<u>602,508</u>	<u>526,876</u>
Cost of goods sold	<u>\$ 479,779</u>	<u>\$ 532,030</u>	<u>\$ 1,416,374</u>	<u>\$ 1,456,266</u>

These financial statements have been prepared by management and are unaudited.  
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# INTERNATIONAL WATER-GUARD INDUSTRIES INC.

## Notes to Interim Financial Statements June 30, 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	396,703
Leasehold improvements	<u>101,073</u>
	591,817
Accumulated amortization	<u>(356,719)</u>
Net book value	<u>\$ 235,098</u>

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

Obligations under capital leases	\$38,925
Loan Payable	<u>12,437</u>
	51,362
Current portion	<u>29,254</u>
Long term portion	\$22,108

The company's capital lease agreements have financed equipment acquired for the growth in operations. These lease obligations have terms from 1 to 31 months, each with purchase options approximating 10% of the equipment cost at the completion of the lease period. The present value of a lease obligation is recorded as a liability, with the current portion included in current liabilities.

### 4. Share capital:

a) Authorized capital of the Company as at June 30, 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 June 30, 2009 there were 2,628,500 options outstanding held by directors, officers and employees. These options are exercisable at various dates to January 7, 2014, as follows:

Exercise Price Per Share	Number Outstanding	Average Remaining Life in Months	Number Exercisable at March 31st
\$0.21	580,000	34.7	580,000
\$0.15	215,000	32.1	215,000
\$0.13	330,000	42.9	132,000
\$0.12	280,000	25.5	70,000
\$0.10	1,043,500	37.7	292,500
\$0.09	<u>180,000</u>	<u>5.5</u>	<u>180,000</u>
Total	2,628,500	33.7	1,469,500

5. 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 continuing with the process of assessing the detailed impact of the Canadian convergence initiative on its financial reporting, accounting policies and disclosure and is developing a conversion plan.

6. Commitments and contingencies:

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