



INTERNATIONAL
Water·Guard

Interim Financial Statements of

**INTERNATIONAL WATER-GUARD
INDUSTRIES INC.**

Nine months ended June 30 , 2008

Interim Financial Statements of

INTERNATIONAL WATER-GUARD INDUSTRIES INC.

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

	June 30 <u>2008</u>	September 30 <u>2007</u>
ASSETS		
Current assets:		
Cash	\$ 101,358	\$ 438,932
Accounts receivable	933,407	721,278
Inventory	526,876	642,232
Prepaid expenses	<u>46,624</u>	<u>37,969</u>
	1,608,265	1,840,411
 Equipment and furniture	 260,106	 219,291
Future income tax asset	<u>499,150</u>	<u>427,000</u>
	 <u>\$ 2,367,521</u>	 <u>\$ 2,486,702</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 382,730	\$ 425,072
Current portion of capital lease obligations and loan	<u>39,031</u>	<u>28,013</u>
	421,761	453,085
 Capital lease obligations and loan payable	 <u>57,030</u>	 <u>42,685</u>
	478,791	495,770
 Shareholders' equity:		
Share capital	7,634,756	7,607,553
Contributed surplus	161,673	153,964
Deficit	<u>(5,907,699)</u>	<u>(5,770,585)</u>
	1,888,730	1,990,932
	 <u>\$ 2,367,521</u>	 <u>\$ 2,486,702</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

Nine months ended June 30

	Three months ended June 30		Nine months ended June 30	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Sales	\$ 1,292,745	\$ 1,042,882	\$ 3,003,193	\$ 3,206,203
Cost of goods sold	<u>532,030</u>	<u>425,710</u>	<u>1,456,266</u>	<u>1,315,651</u>
Gross profit	<u>760,715</u>	<u>617,172</u>	<u>1,546,927</u>	<u>1,890,552</u>
Expenses:				
Selling expenses	109,787	97,558	234,537	259,997
Engineering and product development	204,735	144,516	553,743	362,964
General & administration	352,372	254,391	899,528	792,057
Stock option compensation	4,101	12,525	12,432	26,231
Amortization	16,437	14,202	47,184	39,792
Interest & bank charges	<u>2,795</u>	<u>2,612</u>	<u>8,766</u>	<u>6,400</u>
	<u>690,227</u>	<u>525,804</u>	<u>1,756,189</u>	<u>1,487,441</u>
Earnings (loss) before income taxes	70,488	91,368	(209,263)	403,111
Income tax recovery (expense)	<u>(24,150)</u>	<u>-</u>	<u>72,150</u>	<u>-</u>
Net earnings (loss) for the period	46,338	91,368	(137,113)	403,111
Deficit, beginning of period	<u>5,954,037</u>	<u>6,266,990</u>	<u>5,770,586</u>	<u>6,578,733</u>
Deficit, end of period	<u>\$ 5,907,699</u>	<u>\$ 6,175,622</u>	<u>\$ 5,907,699</u>	<u>\$ 6,175,622</u>
Earnings (loss) per share amounts:				
Basic	<u>0.1¢</u>	<u>0.3¢</u>	<u>(0.4¢)</u>	<u>1.2 ¢</u>
Diluted	<u>0.1¢</u>	<u>0.3¢</u>	<u>(0.4¢)</u>	<u>1.2 ¢</u>
Weighted average shares outstanding				
Basic	<u>34,156,227</u>	<u>33,665,393</u>	<u>34,156,227</u>	<u>33,665,393</u>
Diluted	<u>35,869,553</u>	<u>34,586,124</u>	<u>35,869,553</u>	<u>34,411,414</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 CASH FLOWS

Nine months ended June 30

	Three months ended June 30		Nine months ended June 30	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Cash flows from (used by):				
Operating activities:				
Net earnings for the period	\$ 46,338	\$ 91,368	\$ (137,113)	\$ 403,111
Items not involving cash -				
Income tax expense (recovery)	\$ 24,150		\$ (72,150)	
Compensation related to stock option plan	4,101	12,525	12,432	\$ 26,231
Amortization	16,437	14,202	47,184	39,792
	<u>91,026</u>	<u>118,095</u>	<u>(149,647)</u>	<u>469,134</u>
Changes in non-cash operating working capital:				
Accounts receivable	(317,057)	(25,363)	(212,133)	(15,321)
Inventory	60,107	(105,100)	115,356	(70,387)
Prepaid expenses	37,811	7,518	(8,653)	(1,353)
Accounts payable and accrued liabilities	133,904	(42,564)	(42,342)	(21,452)
Customer deposits	-	321,000	-	321,000
Cash flow from operations	<u>5,791</u>	<u>273,586</u>	<u>(297,419)</u>	<u>681,621</u>
Investing activities:				
Purchase of equipment and leaseholds	<u>3,637</u>	<u>(8,707)</u>	<u>(35,594)</u>	<u>(48,240)</u>
Financing activities:				
Issuance of capital stock	12,501	20,000	22,479	25,000
Proceeds (repayment) of other loans payable	<u>(6,933)</u>	<u>(7,921)</u>	<u>(27,042)</u>	<u>(27,432)</u>
	<u>5,568</u>	<u>12,079</u>	<u>(4,563)</u>	<u>(2,432)</u>
Increase (decrease) in cash	14,996	276,959	(337,575)	630,949
Cash beginning of period	<u>86,361</u>	<u>487,519</u>	<u>438,932</u>	<u>133,529</u>
Cash end of period	<u>\$ 101,357</u>	<u>\$ 764,478</u>	<u>\$ 101,357</u>	<u>\$ 764,478</u>
Supplemental information:				
Non-cash purchase of equipment using capital lease obligation	<u>\$ 17,571</u>	<u>\$ -</u>	<u>\$ 52,405</u>	<u>\$ -</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>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Opening inventory	\$ 586,983	\$ 354,131	\$ 642,232	\$ 388,844
Manufacturing costs:				
Materials	231,361	305,928	638,754	735,337
Labour, freight and other	102,821	92,074	298,359	273,547
Manufacturing overhead	<u>137,741</u>	<u>132,808</u>	<u>403,797</u>	<u>377,154</u>
Cost of goods available for sale	1,058,906	884,941	1,983,142	1,774,882
Closing inventory	<u>526,876</u>	<u>459,231</u>	<u>526,876</u>	<u>459,231</u>
Cost of goods sold	<u>\$ 532,030</u>	<u>\$ 425,710</u>	<u>\$ 1,456,266</u>	<u>\$ 1,315,651</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 June 30, 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, 2007.

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	\$ 83,791
Furniture and office equipment	369,703
Leasehold improvements	<u>101,072</u>
	554,566
Accumulated amortization	<u>(294,460)</u>
Net book value	<u>\$ 260,106</u>

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

Obligations under capital leases	\$79,478
Loan Payable	<u>16,583</u>
	96,061
Current portion	<u>(39,031)</u>
Long term portion	<u>\$57,030</u>

The company's capital lease agreements have financed equipment acquired for the growth in operations. These lease obligations have terms from 13- 40 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, 2008 includes an unlimited number of both common shares and preferred shares, of which 34,310,694 common shares and no preferred shares were issued and outstanding.

b) Under the Company's stock option plan, as of June 30, 2008 there were 1,917,500 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 th
\$0.21	580,000	46.8	580,000
\$0.145	235,000	42.0	235,000
\$0.13	390,000	55.2	0
\$0.10	322,500	15.6	322,500
\$0.075 - \$0.09	<u>390,000</u>	<u>12.0</u>	<u>390,000</u>
Total	1,917,500	36.0	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 2007 audited financial statements.



INTERNATIONAL
Water·Guard

Management's Discussion and Analysis

**INTERNATIONAL WATER-GUARD
INDUSTRIES INC.**

Nine months ended June 30, 2008

Dated: July 22, 2008

INTERNATIONAL WATER-GUARD INDUSTRIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS Third Quarter to June 30, 2008

Overview

International Water-Guard Industries Inc. ("IWG") designs, manufactures, sells and services 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.

Comments in this analysis should be read in conjunction with the comparative interim financial statements for the nine months ended June 30, 2008 and the Company's audited financial statements and MD&A for the year ended September 30, 2007. The following discussion, and the information elsewhere in this report, is focused primarily on the current quarter's results and is intended to provide the reader with a further understanding of the Company's business and factors underlying such financial results.

This analysis and the accompanying interim financial statements, while unaudited, have been prepared using generally accepted accounting principles and have been approved by the Company's Audit Committee and Board of Directors.

Operating results

The anticipated increase in Company revenue for the third quarter of financial 2008, has taken place, reversing the temporary drop off seen in the first half of the year.

The Company reported sales during the third quarter in fiscal 2008 of \$1,292,745, a 24% increase above the same quarter of the previous year. Third quarter net earnings were \$46,339 compared to net earnings (that excluded a tax provision) of \$91,368 in the prior year's third quarter.

Nine month sales to June 30th were \$3,003,193 compared to \$3,206,203 in the prior year. The nine month net loss was \$137,114 compared to net earnings (that excluded a tax provision) of \$403,111 a year earlier.

In both the current quarter and the nine month period, the Company continued the near term acceleration of its new product development efforts to meet an emerging need for complementary products in aircraft water treatment and systems. The related expenditures have reduced the Company's net income in this period, which will continue for the balance of the fiscal year.

The results for the quarter provide 0.1¢ net earnings per share in the current quarter (0.4¢ loss year to date), compared to net earnings of 0.3¢ per share in the third quarter of the prior year (1.2¢ year to date) on both a basic and fully diluted basis.

Sales and sales margins

As noted above, sales of aviation water treatment equipment increased in the third quarter reversing a short term drop experienced during the first half of the year, and rising by 24% compared to the same quarter in the previous year. Service and parts revenue continued to increase with a greater install base partially offsetting the earlier short term lagging equipment sales from some customers.

Apart from the impact of the lower US dollar value, margin rates on equipment and parts sales, remain generally consistent from period to period being reported, and in line with sales.

Operating expenses

Selling expenses of \$109,787 for this quarter increased 13% over the comparable period of the prior year, due to increase in travel and trade show expenses.

Engineering and product development expenses of \$204,735 in the third quarter, is an increase of 42% over the prior year due to acceleration of new product development during this fiscal year for complementary products in aircraft water treatment.

General, administration and information technology expenses totaled \$352,371, a 39% increase above the same quarter in the prior year. This increase was primarily attributed to increased staffing levels, normal compensation increases and adoption of a director's fee schedule from the commencement of the fiscal year, fees from the first three quarters therefore accruing in the third quarter results.

The increase in amortization is related to capital expenditures in fiscal 2008, which was financed through a capital leases.

Quarterly information

The following summary information is taken from the Company's quarterly and annual financial reports covering the last eight reporting quarters.

Quarterly Results Reported for: (\$000's except per share amounts)

	Fiscal Year 2008			Fiscal year 2007				Fiscal year 2006
	Jun 30	Mar 31	Dec 31	Sept 30	Jun 30	Mar 31	Dec 31	Sep 30
Sales	\$1,292	\$856	\$854	\$1,279	\$1,043	\$1,149	\$1,013	\$929
Net income (loss)	\$46	(\$103)	(\$81)	\$405	\$91	\$176	\$135	\$67
Earnings per share, basic and fully diluted	0.1¢	(0.3)¢	(0.4)¢	1.2¢	0.3¢	0.5¢	0.4¢	0.2¢

There are no factors which may be used to predict future performance in either sales or in net income or loss on a quarter to quarter basis.

Liquidity and capital resources

The Company's liquidity and capital resource position has improved during the third quarter of fiscal 2008 with the improvement in sales orders and earnings.

Cash position:

Cash increased modestly by \$14,997 during the quarter, although still \$337,573 lower than the commencement of the year due to earlier reduced sales, accelerated product development and resulting losses.

Cash flow from operations:

Cash provided from operating activities, including non-cash operating working capital, was \$5,792 in the current quarter compared to \$273,586 cash provided in the same quarter of the prior year.

Capital expenditures:

Capital expenditures of \$13,932 were incurred during the third quarter to purchase equipment.

Working capital position:

The Company completed its second quarter ended June 30, 2008 with working capital of \$1,186,504, an increase of \$99,801 during the quarter although a decrease of \$200,622 from the position of \$1,387,325 at its fiscal year end. These changes generally reflect the trends in sales and earnings.

Contractual obligations

The Company's lease and other contractual obligations have not changed materially from that stated in its audited financial statements and MD&A for the fiscal year ended September 30, 2007, and there are no future commitments for the purchase of capital equipment

Share capital

The Company has 34,310,694 common shares outstanding as at the date of this report. In addition, there are 1,917,500 options outstanding under the Company's stock option plan, details of which are included in the notes to the financial statements.

Related party transactions

During the reporting period, the Company paid a total of \$20,604 plus expenses for Corporate Financial Advisory Services to a firm in which a director of the Company is a principal. The services provided were in the normal course of business and valued at amounts agreed to by the parties.

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 impact of such risks to its operations.

Generally, the risks identified in the Company's annual management discussion and analysis for the fiscal year ended September 30, 2007, that relate to the business use aircraft markets, competitive position and intellectual property protection, have not changed from that reported previously.

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. 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 can fluctuate from period, although this may be offset by sales from new customers.

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 a limited 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.

The Company has recently employed financial instruments to hedge a portion of its foreign exchange requirements through to June 2008, and may continue to do so in the future.

Financial Resources

The Company's operations and lines of credit have ensured that sufficient cash is available to fund its current product development or capital expenditures and current level of operations, providing a base on which the Company can continue its growth in the aviation market. Continuing growth and product engineering will require additional capital beyond that generated from operations.

It is anticipated that the private placement of common shares announced during the third quarter, for proceeds of \$500,000, will be completed during the fourth quarter.

Forward-looking statements

The Company's financial reports contain certain forward looking statements that reflect the current views and/ or expectations of IWG with respect to its performance, business and future events. Such statements are subject to a number of risks, uncertainties and assumptions, which may cause actual results to be materially different from those expressed or implied. IWG assumes no future obligation to update these forward looking statements

Business outlook

Development activity pursued by IWG in recent years has assured that its UV based water treatment products and systems are at the leading edge of aviation market requirements. While some fluctuation in sales from period to period is to be anticipated, the outlook on the business aviation sector continues to be strong. Elsewhere, potable water quality is being perceived as an increasingly important issue for the commercial airlines, as evidenced by recent EPA and Health Canada reports.

International Water-Guard Industries goal is to significantly grow its business as a provider of water systems and disinfection units to the aviation industry.

Other information

Additional information relating to the Company is available under the Company's name on SEDAR at www.sedar.com.