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Investment Analysis for Intelligent Investors

August 7, 2007

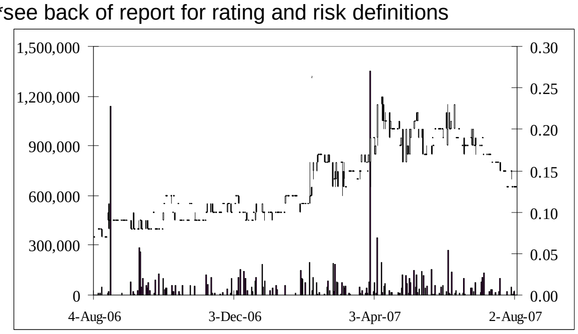
International Water-Guard Industries Inc. (TSX-V: IWG) – Another Quarter of Profitability; Fundamentals Remain Strong

Sector/Industry: Aerospace Products and Services **www.water.aero**

Market Data (as of August 3, 2007)

Current Price	C$0.13
Fair Value	C$0.35
Rating*	BUY
Risk*	3 (Average)
52 Week Range	C$0.09 -C$0.24
Shares O/S	33,599,694
Market Cap	C$4.37 mm
Current Yield	N/A
P/E (forward)	7.95x
P/B	2.91x
YoY Return	85.7%
YoY TSX-V	17.1%

*see back of report for rating and risk definitions



Q3-2007 Highlights

- Revenues in Q3-2007 increased by 2.8% YOY, from $1.01 million to $1.04 million. Total revenues (including unearned revenues) increased by 34.4% YOY. Growth in earned revenues was slower due to slower growth in unit sales. We expect revenues to pick up in Q4-2007, based on revenues from the sale of its fifth water system and unearned revenues received in Q3-2007 (customer deposits).
- Gross and EBITDA margins dropped YOY in Q3-2007.
- The company achieved its 11th straight quarter of profitability in Q3-2007. Due to the drop in margins, net income dropped by 4% YOY, from $152,120 (eps: $0.00) to $91,368 (eps: $0.00).
- Our positive outlook on the industry and the company's growth potential remains intact. We have not made any significant changes in our mid-term and long-term revenue forecasts.
- We have slightly lowered our eps estimates for FY2007 and FY2008, due to an increase in cost estimates.

Financial Summary (YE Sept 30) (C$)	2003	2004	2005	2006	2007E	2008E
Revenue	3,050,097	3,641,463	3,134,809	3,662,460	4,482,203	5,493,690
Gross Margin	59.77%	51.31%	53.84%	59.92%	57.00%	58.00%
Net Income	(727,974)	(3,961,291)	914,111	404,545	504,566	692,758
EPS (basic)	(0.05)	(0.21)	0.04	0.01	0.02	0.02
Cash	-	64,836	354,804	133,529	872,777	1,494,318
Assets	3,938,970	1,162,044	1,212,922	1,505,304	2,226,835	2,977,867
Debt to Capital	45.74%	1025.03%	40.64%	9.21%	4.20%	1.76%
ROE	-35.79%	-2286.86%	-247.83%	49.62%	38.01%	33.94%
ROIC	-24.62%	-251.05%	257.37%	49.05%	50.81%	69.60%

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.

Total revenues were inline with expectations

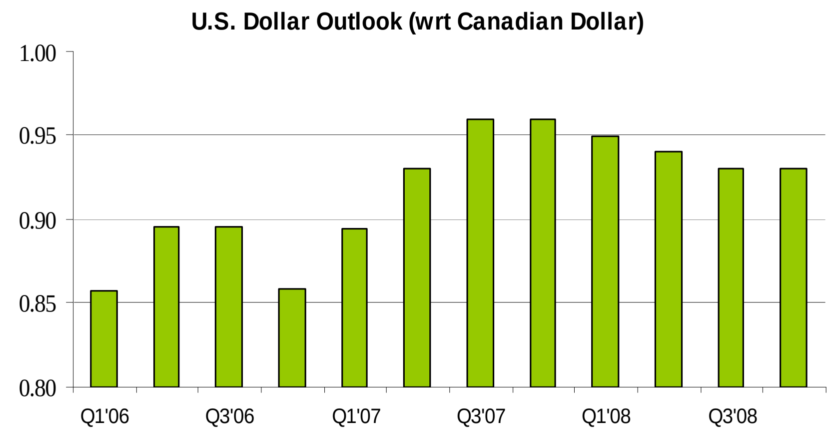
Revenues in Q3-2007 increased by 2.8% YOY, from $1.01 million to $1.04 million. IWG also reported unearned revenues (customer deposits) of $0.32 million in Q3-2007. The company had recorded YOY revenue growth of 27.7%, and 24.2%, in Q1-2007, and Q2-2007, respectively. Although revenue (earned) growth of 2.8% YOY in Q3-2007 might seem low compared to previous quarters, total revenues (including unearned revenues) in Q3-2007 actually grew by 34.4% YOY, which is higher than previous quarters.

Although the company recorded slower revenue (earned) growth in Q3-2007, revenues in the 9-month period in FY2007, were up by 17.3% YOY, due to solid performance in the first two quarters. Revenues in the first 9 months of FY2007 were $3.21 million, compared to $2.73 million in the comparable period in the previous year. The table below shows the growth in revenues since FY2004.

Sales		**2004**	**2005**	**2006**	**2007**
Q3	Revenues	$934,029	$723,342	$1,014,045	$1,042,882
	Unearned Revenues				$321,000
9 mo	Revenues	$2,889,063	$2,319,068	$2,733,361	$3,206,203
	Unearned Revenues				$321,000

The slower growth in earned revenues was primarily attributed to slower growth in sales, and the strong appreciation of the Canadian dollar with respect to the U.S. dollar. Unit sales grew by only 9% YOY in Q3-2007, compared to 23% and 24% in Q1-2007 and Q2-2007, respectively. However, customer deposits of $0.32 million (which are made for significant sales) show that the company would have reported sales growth in line with previous quarters, if those sales were completed in Q3-2007.

Outlook on the Canadian dollar: A significant portion of the company's sales is invoiced in U.S. dollars. Some of the exchange risks are offset as the company's product costs are also in U.S. dollars. The strong appreciation of the Canadian dollar with respect to the U.S. dollar in the first half of 2007 put downward pressure on the company's revenues in Q3-2007**.** The impact of the U.S. dollar resulted in an exchange loss of $59,972 during Q3-2007. The chart below shows forecasts for US$/C$.



Source: TD Economic

The Canadian dollar hit a 30-year record high of US$0.96 in July 2007, and as of August 6, 2007, was at about US$0.95. Based on expectations of rising interest rates in Canada, and a projected slowdown in the U.S. economy, the U.S. dollar is forecasted to depreciate with respect to the Canadian dollar in 2008. The Canadian dollar is expected to stay at current levels for the rest of the year. Although the Canadian dollar is expected to decline from current levels going forward, the forecasted levels in 2007 and 2008 are above the levels in 2006. Therefore, we expect the strong Canadian dollar to put a downward pressure on IWG's revenues in the short-term. The company might have to adopt hedging strategies to offset exchange rate risk.

New order for the potable water system: IWG entered into a contract in April 2007 to supply a potable water system (C-PWS™) on a Boeing BBJ aircraft. This will be the fifth water system that IWG will have installed (second on a Boeing BBJ). We believe this new contract is a very positive development for the company, as increasing sales of its water systems in the corporate aircraft sector is one of the company's main priorities at this time. The water system is expected to be delivered by Q4-2007 (September 2007). Since the price of a C-PWS™ is many times higher than that of a water treatment unit, we are expecting considerable growth in revenues in Q4-2007, as revenues from this sale is recorded.

Revenue Forecasts: There has not been any significant change in the industry since our previous report, and therefore, our positive outlook on the industry remains intact. Growth in aircraft orders remained strong, as aircraft orders for Boeing Co. (NYSE: BA) and Airbus (the two largest manufacturers) rose by 21% YOY in Q1-2007, from 266 to 323 units (SpeedNews). Deliveries at Boeing climbed 18% to 114 airliners in the second quarter. According to Boeing, commercial shipments are expected to increase 12% to 445 planes in 2007.

Total revenues (including unearned revenues) for IWG in Q3-2007 were inline with our expectations, but we estimate that a portion of the unearned revenues (customer deposits) will be reported as earned revenues only in FY2008. Therefore, we have revised our revenue forecast for FY2007 downward, from $4.69 million to $4.48 million. We have maintained our revenue forecast for FY2008 at $5.49 million.

Gross margins dropped YOY, but were above our annual forecasts

The tables below show the company's margins in Q3-2007, the 9-month period in FY2007, and their comparable periods in the previous years.

Margins	2004-Q3	2005-Q3	2006-Q3	2007-Q3
Gross	47.31%	55.29%	63.32%	59.18%
EBITDA	-4.48%	10.51%	17.58%	10.37%
EBIT	-12.20%	10.24%	16.33%	9.01%
EBT	-17.38%	5.74%	15.00%	8.76%
Net Margin	-17.38%	7.23%	15.00%	8.76%

Margins	2004 9 mo	2005 9 mo	2006 9 mo	2007 9 mo
Gross	56.53%	54.72%	61.52%	58.97%
EBITDA	8.44%	10.45%	15.18%	14.01%
EBIT	2.34%	9.76%	14.22%	12.77%
EBT	-2.32%	4.12%	12.36%	12.57%
Net Margin	-2.32%	36.48%	12.36%	12.57%

As shown in the table, gross margins in Q3-2007 dropped YOY, from 63.3% to 59.2%. Although gross margins for the 9-month period in FY2007 dropped YOY from 61.5% to 59.0%, they were still higher than our annual expectation of 58%. We expect gross margins to decline in Q4-2007, as revenues from sales of C-PWS™ are reported (water systems have lower margins compared to units). Therefore, we have reduced our gross margin forecast for FY2007 slightly to 57%.

EBITDA dropped YOY due to an increase in Research & Development (R&D) and General & Administrative (G&A) expenses

EBITDA margins in Q3-2007 were 10.4%, compared to 17.6% in Q3-2006. EBITDA margins in the first 6 months of FY2007 were actually higher at 15.8%, compared to 13.8% in the comparable period in the previous year. Due to the drop in EBITDA margins in Q3-2007, EBITDA margins for the 9-month period dropped YOY, from 15.2% to 14.0%.

Margins declined primarily due to an increase in R&D and G&A expenses. R&D expenses as a percentage of sales increased from 10.9% in Q3-2006, to 13.9% in Q3-2007, while G&A expenses as a percentage of sales went up from 22.6% in Q3-2006, to 24.4% in Q3-2007. R&D costs increased by 31% YOY, due to elevated product development activities, and increased staffing. G&A expenses rose by 11% YOY, due to higher professional fees, investor relations expenses, increased staffing levels, and compensation increases.

Although G&A and R&D expenses rose YOY, selling expenses as a percentage of sales dropped in Q3-2007, from 11.5% in Q3-2006, to 9.4%. However, the drop in selling costs was not able to offset the overall rise in costs. Selling expenses declined due to a reduction in travel and trade show expenses.

We have increased our forecasts for both G&A and R&D expenses, and reduced our forecast for selling expenses for FY2007.

Achieved 11th straight quarter of profitability: The company achieved its 11th straight quarter of profitability in Q3-2007. Net income in Q3-2007 was $91,368 (eps: $0.00), compared to $152,120 (eps: $0.00) in Q3-2006. The drop in net income YOY was due to the drop in margins. Net income in the first 9 months of FY2007 was $0.40 million (eps: $0.01), compared to $0.34 million (eps: $0.01) in the comparable period in the previous year.

Our revised eps forecasts for FY2007, and FY2008, are $0.50 million (eps: $0.02), and $0.69 million (eps: $0.02), respectively, compared to our previous forecasts of $0.57 million (eps: $0.02), and $0.68 million (eps: $0.02). We reduced our forecast for net income in FY2007 due to a decrease in revenues, and increase in cost forecasts.

Cash Flows: Although net income dropped YOY, cash flow from operations were higher YOY due to increased cash from working capital. The company generated $0.27 million from operating activities in Q3-2007, while it had to spend $0.15 million on working capital in Q3-2006. The company generated $0.68 million from operating activities in the first 9 months of FY2007, compared to $60,225 in the comparable period in the previous year. IWG spent $8,707 to purchase equipment in Q3-2007 (9-month period: $48,240). We have reduced our CAPEX estimate for FY2007 from $75,000 to $60,000.

Cash and Liquidity Position: The table below shows the company's cash and liquidity position at the end of Q3-2007 compared to previous fiscal years.

Liquidity Analysis	2005	2006	Q3-2007	2007E	2008E
Working Capital	576,218	909,496	1,330,379	1,447,580	2,295,602
Current Ratio	1.96	3.33	2.94	3.53	5.75
Debt / Capital	40.6%	9.2%	5.0%	4.2%	1.8%
Interest Coverage Ratio	2.1	8.0	36.0	58.1	121.7

Cash and working capital at the end of Q3-2007 were $0.76 million and $1.33 million, respectively, compared to $0.13 million and $0.91 million at the end of FY2006. IWG's cash position improved as the company generated $0.68 million from operating activities. We expect the company to have cash and working capital of $0.87 million and $1.45 million, respectively, by the end of FY2007.

The company has reduced its debt to capital from 5.9% at the end of Q2-2006, to 5.0% at the end of Q3-2006. IWG's long-term debt to equity is 0.03, which is much lower than the average long-term debt to equity of 1.18 for the Aerospace/Defense Products and Services industry (Yahoo Finance).

Stock Options: At the end of June 2007, the company had 2.5 million stock options outstanding (1.8 million are currently 'in-the-money'), with exercise price ranging between $0.075 and $0.21, and a weighted average time to maturity of 2.2 years. In Q3-2007, 0.2 million options (with an exercise price of $0.10) were exercised. The company does not have any warrants outstanding.

Valuation

Our revised DCF valuation on IWG is $0.35 per share (compared to our previous estimate of $0.34 per share). The valuation changed little, as we did not make any noteworthy changes in our mid-term and long-term forecasts. The slight increase in valuation was attributed to an increase in our forecasts for cash flows from working capital in FY2007.

DCF Valuation Model	2007	2008	2009	2010	2011	2012	2013	2014	Terminal
FFO	599,410	794,698	957,193	1,150,659	1,323,873	1,522,751	1,490,411	1,359,137	1,560,926
Investment in WC	210,317	(221,981)	(22,212)	(97,619)	(95,905)	(116,230)	(138,830)	(164,145)	(192,672)
CFO	809,727	572,717	934,980	1,053,040	1,227,968	1,406,521	1,351,581	1,194,992	1,368,253
CAPEX	(60,000)	(50,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)
FCF	749,727	522,717	909,980	1,028,040	1,202,968	1,381,521	1,326,581	1,169,992	1,343,253
PV	728,784	453,674	705,166	711,298	743,151	762,014	653,313	514,461	6,562,733

Discount Rate	12%
Terminal Growth Rate	3%
Total PV	$11,834,594
Debt	57,637
Equity Value	$11,776,957
Shares O/S (dil)	34,014,502
Value per share	**$0.35**

The table below shows our revised comparables valuation on IWG.

	Industry	IWG	Fair Value
P/E	20.6	8.66	**$0.31**
P/S	1.64	0.99	**$0.22**

Average	**$0.26**

As shown in the table above, the company is clearly undervalued based on its Price to Earnings (P/E) and Price to Sales (P/S) multiples. Since we lowered our eps forecasts for FY2007, our comparables valuation dropped from $0.31 per share to $0.26 per share.

Rating

Based on our revised valuation models, and review of the company's Q3-2007 results, we reiterate our BUY rating (Risk 3: Average), and maintain our fair value estimate of $0.35 per share on IWG. The company's share price has dropped significantly in the past two months, from $0.23 per share (June 11, 2007), to its current price of $0.13 per share. Our analysis shows that the drop in share price, does not reflect the fundamentals of the company. Our fair value estimate reflects an upside potential of 169% from current price levels.

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$'s, and the company has not yet entered into any foreign exchange contracts to hedge against foreign exchange fluctuations.

Appendix

STATEMENTS OF OPERATIONS (in C$)	2004	2005	2006	2007E	2008E
Sales	**3,641,463**	**3,134,809**	**3,662,460**	**4,482,203**	**5,493,690**
COGS	1,773,115	1,447,104	1,467,763	1,927,347	2,307,350
Gross Profit	**1,868,348**	**1,687,705**	**2,194,697**	**2,554,856**	**3,186,340**
Expenses					
Selling Expenses	307,880	300,604	373,683	363,470	445,494
Research&Development	295,290	362,948	425,338	507,416	621,923
General & Administration	1,000,565	678,122	864,836	1,075,729	1,318,486
Stock Option Compensation	26,456	18,098	29,745	35,858	43,950
EBITDA	**238,157**	**327,933**	**501,095**	**572,383**	**756,488**
Amortization	178,833	21,213	39,078	58,987	57,990
EBIT	**59,324**	**306,720**	**462,017**	**513,397**	**698,499**
Interest & Bank Charges	186,303	143,123	57,472	8,831	5,740
Earnings from operations, before undernoted	**(126,979)**	**163,597**	**404,545**	**504,566**	**692,758**
Government Assistance					
Gains on settlement of notes and accounts payable		601,451	-	-	-
Gain on sale of commerical division assets		164,063	-	-	-
Wite-down of assets and costs	(3,834,312)	(15,000)	-	-	-
EBT	**(3,961,291)**	**914,111**	**404,545**	**504,566**	**692,758**
Taxes	-	-	-	-	-
Net Earnings for the eperiod	**(3,961,291)**	**914,111**	**404,545**	**504,566**	**692,758**
EPS	(0.21)	0.04	0.01	0.02	0.02

BALANCE SHEETS (in C$)	**2004**	**2005**	**2006**	**2007E**	**2008E**
Assets					
Cash	64,836	354,804	133,529	872,777	1,494,318
Accounts receivable	592,467	508,776	755,321	826,368	1,012,852
Inventory	423,626	282,922	388,844	294,374	240,174
Prepaid Expenses	5,529	31,928	21,664	26,357	31,554
Current Assets	**1,086,458**	**1,178,430**	**1,299,358**	**2,019,876**	**2,778,898**
Equipment & Furniture	75,586	34,492	205,946	206,960	198,970
Deferred Dev Costs and foreign exchange loss					
Total Assets	**1,162,044**	**1,212,922**	**1,505,304**	**2,226,835**	**2,977,867**
Liabilities & Shareholders' Equity					
Accounts Payables & Accrued Liabilities	1,018,965	226,020	354,383	385,469	461,470
Demand / Factoring Loan	449,500	367,900	-	-	-
Customer Deposits, Bank and Shareholder's loan	256,507			160,500	
Current portion of capital lease obligations and loan	4,146	8,292	35,479	26,326	21,826
Current portion of notes payable	727,425				
Current Liabilities	**2,456,543**	**602,212**	**389,862**	**572,295**	**483,296**
Convertible Debentures					
Obligations under capital lease and other loan	29,021	24,875	70,567	44,241	22,415
Notes and Loans payable					
Shareholder's Equity					
Share Capital	6,530,913	7,508,539	7,533,289	7,558,289	7,683,439
Contributed surplus	42,956	60,574	90,319	126,177	170,126
Deficit	(7,897,389)	(6,983,278)	(6,578,733)	(6,074,167)	(5,381,409)
Total Liabilities & Shareholders' Equity	**1,162,044**	**1,212,922**	**1,505,304**	**2,226,835**	**2,977,867**

STATEMENTS OF CASH FLOWS (in C$)	**2004**	**2005**	**2006**	**2007E**	**2008E**
Operating Activities					
Net earnings for the period	(3,961,291)	914,111	404,545	504,566	692,758
Items not involving cash					
Gain on liabilities and sale of commerical division		(765,514)			
Book value of assets sold					
Unreallized foreign exchange and other gains	(42,849)				
Compensation related to stock option plan	26,456	18,098	29,745	35,858	43,950
Write-downs	3,834,312	15,000			
Interest accrued(on NP, on shareholer loan)	65,053	20,728			
Amortization and equipment write-down	178,833	21,213	39,078	58,987	57,990
	100,514	**223,636**	**473,368**	**599,410**	**794,698**
Changes in non-cash operating working capital					
Accounts receivable	(300,722)	63,691	(246,545)	(71,047)	(186,484)
Inventory	207,188	45,482	(105,922)	94,470	54,200
Prepaid expenses		(26,399)	10,264	(4,693)	(5,197)
Accounts payable and accrued liabilities	157,531	(593,126)	128,363	31,086	76,001
Customer Deposits	(348,257)			160,500	(160,500)
	(284,260)	**(510,352)**	**(213,840)**	**210,317**	**(221,981)**
Cash from from (used in) operations	**(183,746)**	**(286,716)**	**259,528**	**809,727**	**572,717**
Investing activities					
Purchase of furniture and equipment	(1,207)	(15,834)	(107,791)	(60,000)	(50,000)
Proceeds on sale of commerical division		300,000			
Deferred Development Costs	(1,076,642)				
Purchase of equipment and leaseholds	**(1,077,849)**	**284,166**	**(107,791)**	**(60,000)**	**(50,000)**
Financing activities					
Proceeds(repayments) of demand loans	548,350	(81,600)	(367,900)		
Proceeds (repayments) of payables and leases	(115,086)	(314,300)	(29,862)	(35,479)	(26,326)
Convertible debenture issued					
Issue of common share for cash	941,355	688,418	24,750	25,000	125,150
	1,374,619	**292,518**	**(373,012)**	**(10,479)**	**98,824**
Increase (decrease) in cash	113,024	289,968	(221,275)	739,248	621,541
Cash beginning of period	(48,188)	64,836	354,804	133,529	872,777
Cash end of period	**64,836**	**354,804**	**133,529**	**872,777**	**1,494,318**

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.

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