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Investment Analysis for Intelligent Investors

IWG Technologies Inc. (TSX-V: IWG) - Weak US$ Continues to Impact Revenues; Industry Activity Picking Up

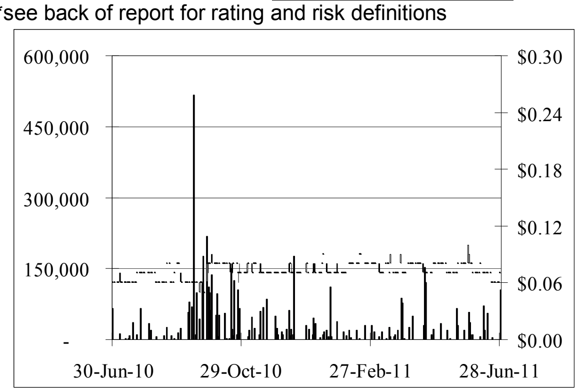
Sector/Industry: Aerospace Products and Services

www.water.aero

Market Data (as of June 30, 2011)

Current Price	**C$0.07**
Fair Value	**C$0.25 (↓)**
Rating*	**BUY**
Risk*	**Average**
52 Week Range	C$0.05 –C$0.10
Shares O/S	38.11 mm
Market Cap	C$2.66 mm
P/S (forward)	0.60x
P/E (forward)	13.7x
P/B	0.90
YoY Return	16.7%
YoY TSX-V	34.2%

*see back of report for rating and risk definitions



Q2- 2011 Highlights

- The S&P 500 Aerospace & Defense Industry Index was up 9.05% in the last six months. Boeing and Airbus raised production rates, and aircraft deliveries continued to grow in the last six months.
- We expect a recovery in the global business jet market based on an improvement in the U.S. economy and continued growth in the BRIC nations.
- IWG shareholders approved the company's restructuring plan (announced in March 2011), wherein IWG will become a wholly owned subsidiary of a new public holding company, IWG Technologies Inc.
- The company has settled the pending patent infringement lawsuit with Bombardier Inc. The patent infringement action and counterclaim have been discontinued in Federal Court.
- Working capital and the current ratio continue to be strong at $2.34 million and 9.7x, respectively, at the end of Q2. Debt to capital was only 0.6%.
- Revenue in Q2- 2011 dropped YOY, which led to lower gross margins and net earnings. However, due to a strong Q1, earnings in the first six months of FY2011 were higher YOY.
- We have lowered our revenue and EPS forecasts for FY2011 and FY2012.

Financial Summary (YE Sept 30) (C$)	2009	2010	2011E	2012E
Revenue	4,952,911	4,381,894	4,411,705	4,797,992
Gross Margin	63.11%	54.35%	56.00%	56.00%
Net Income	312,016	135,423	193,908	199,867
EPS (basic)	0.01	0.00	0.01	0.01
Cash	1,362,363	1,122,172	1,211,466	1,393,169
Assets	3,249,308	3,350,627	3,456,743	3,733,431
Debt to Capital	1.57%	1.05%	0.38%	0.23%
ROE	12.09%	4.78%	6.50%	6.29%
ROIC	20.87%	8.32%	10.55%	10.59%

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.

Update on the Aerospace and Defense Industry

The S&P 500 Aerospace & Defense Industry Index was up 9.05% in the last six months. The main reasons for this were the continued growth in the emerging markets especially from the BRIC nations. Over the last six months, we have seen some of the largest aviation orders ever.

- On February 1, 2011, Indigo Airlines signed the largest order of its kind in commercial aviation history - a deal with Airbus to buy 180 A320s.
- Delta Airlines (NYSE: DAL) issued a request for proposals asking for bids for up to 200 firm aircraft plus 200 options.
- The CEO of Air Asia (KLSE: *AIRASIA)* indicated that the airline plans a new order for 175 aircraft. Furthermore, ILFC has placed an order for 133 aircraft - split between Boeing (NYSE:BA) and Airbus(subsidiary of EADS). Boeing and Airbus have raised production rates, their aircraft deliveries are expected to exceed 1,000 for the first time in 2011.
- Bombardier Aerospace (TSX: BBD) just had the largest business aircraft sale in the company's history. The company received a firm order for 50 *Global* business jets with options for an additional 70 *Global* jets from Netjets Inc. The deal is valued at US$2.8 billion for the firm orders, and over US$6.7 billion if all the options are exercised. It is forecasted to deliver 150 business jets and 90 commercial aircraft in calendar year 2011.
- Cessna Aircraft (a subsidiary of Textron; NYSE: TXT) delivered 179 business jets in 2010. The company has announced that they will deliver at least as many during 2011.

The recovery in the sector has started to show in the capital markets. The Aerospace and Defense Industry has picked up significantly since September 2010. The following chart shows that the S&P 500 Aerospace & Defense Industry Index was up 9.05% in the last six months. (As of May 2011)

Source: Capital IQ and FRC

Although we expect the industry to continue to experience growth, we expect a gradual recovery due to the slow economic recovery in Europe and the U.S. In addition, the weak US dollar is expected to continue to affect Canadian players, such as IWG.

IWG versus the Aerospace and Defense Industry

The following table shows some of IWG's key valuation metrics and financial ratios compared to the Aerospace and Defense Industry.

		Aerospace and Defense Industry	IWG {based on 2011E)
Revenue multiples	Enterprise Value/Revenues	1.0	0.1
	Price/Sales	0.9	0.6
Margins	Gross Margins	18.0%	56.0%
	Net Margins	5.9%	4.4%
Earnings multiples	Enterprise Value/EBITDA	8.3	1.08
	P/E	16.4	13.72
	Return on Capital	15.60%	10.55%
Liquidity/Debt Ratios	Current Ratio	1.6	9.7
	Debt/Capital	16.5%	0.6%

Source: Capital IQ and FRC

Note: Enteprise Value = Market Capitalization + Debt - Cash

As shown in the table, IWG's valuation metrics look extremely attractive compared to the Aerospace and Defense Industry average metrics. In addition, the company has a sound balance sheet with $1.11 million in cash at the end of Q2-2011. Working capital was $2.34 million and the current ratio was 9.69x. Debt to capital at the end of Q2 was just 0.6% versus the industry average of 16.5%.

Corporate Restructuring

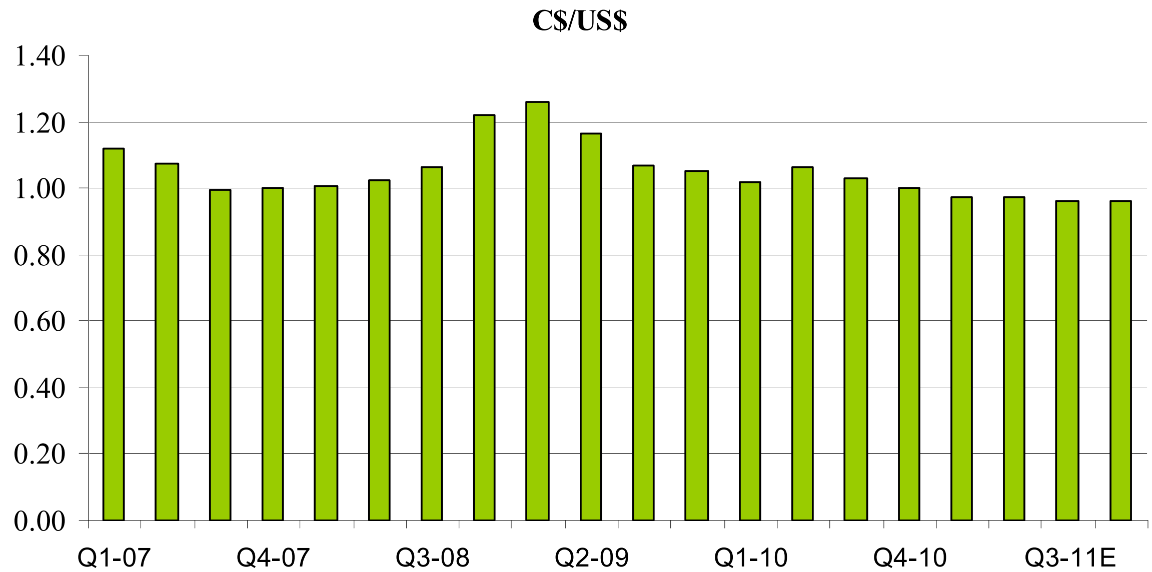
On April 27, 2011, IWG announced shareholder approval of the corporate restructuring plan (announced in March 2011) wherein IWG will become a wholly owned subsidiary of a new public holding company, IWG Technologies Inc. As mentioned in our previous report, we believe the proposed transaction does not in any way affect the current shareholders' ownership in the company. All the shareholders will receive one share of the new company for each share of IWG. The new company will have the same capital structure as IWG.

Commitments and contingencies

The company has settled the long-standing patent infringement lawsuit with transportation giant Bombardier Inc. The pending patent infringement action and counterclaim have been discontinued in Federal Court. The terms and conditions of the settlement were not disclosed, however, we expect it to be reflected in the financial statements going forward. We believe the settlement of the lawsuit harmonizes its relationship with Bombardier Inc., and the company can potentially generate more sales from Bombardier and other players who were not partnering with IWG due to the uncertainty regarding the outstanding lawsuit.

Q2-2011 Financials

The weak U.S. dollar continued to negatively impact IWG's financial performance. The US$/C$ hit its lowest level in the last three years. The C$/US$ went as low as 0.946 on April 29, 2011, and has since then re-bounced to the current spot rate of 0.97. As shown in the chart below, the U.S. dollar is expected to remain weak for the rest of the year. Although, on September 30, 2010, IWG opened forward currency contracts with a total commitment to sell US$2.3 million at an average rate of $1.047 to August 2011, the lower value of the U.S. dollar continued to put downward pressure on IWG's revenues.



Source: TD Economics

Revenues dropped by 9.3% YOY in Q2-2011, to $1.04 million compared to $1.14 million in Q2-2010. Second quarter net earnings dropped by 72.9% YOY from $54,260 (EPS: $0.00) in the previous year to $14,709 (EPS: $0.00). Revenues for the first six months of FY2011 were $2.15 million compared to $2.17 million in the prior year. Net earnings were $0.12 million (EPS: $0.00) in the first six months of FY2011 compared to $0.095 million (EPS: $0.00) for the same period last year.

The following tables show margins in Q2 and for the first six months.

Margins	2009-Q2	2010-Q2	2011-Q2	2009-6 mo	2010-6 mo	2011-6 mo
Gross	64.3%	51.7%	48.2%	63.1%	54.4%	54.3%
EBITDA	6.1%	8.4%	3.6%	7.2%	7.9%	9.6%
EBIT	5.0%	7.1%	2.5%	6.1%	6.7%	8.4%
EBT	4.6%	6.7%	2.0%	5.7%	6.2%	8.0%
Net Margin	3.0%	4.7%	1.4%	3.9%	4.4%	5.5%
Expenses / Sales	**2009-Q2**	**2010-Q2**	**2011-Q2**	**2009-6 mo**	**2010-6 mo**	**2011-6 mo**
Selling Expenses	8.7%	8.9%	6.7%	9.6%	9.0%	8.1%
R&D	22.4%	4.8%	11.2%	19.9%	7.4%	11.5%
G & A	26.5%	33.4%	29.6%	25.9%	32.1%	28.7%
Stock Option Compensation	0.6%	0.5%	0.3%	0.5%	0.5%	0.3%
Total	**58.2%**	**47.6%**	**47.9%**	**55.9%**	**49.0%**	**48.6%**

Gross margins in Q2 were down YOY from 51.7% to 48.2%, but margins for the six month period (54.3%) were comparable to the same period in the previous year (due to a strong Q1-2011).

Net margins in Q2 were down YOY from 4.7% to 1.4% primarily because of - a) lower gross margins and b) as the company reported $116,632 of engineering and product development expenses in the quarter, representing a 110%YOY increase. This was largely due to the recovery of expenses from a government research assistance program for a product development project in 2010.

EPS Forecasts

As Q2 did not meet expectations and as the US$ is expected to remain soft for the rest of the year, we have adjusted our revenue forecasts for FY2011 and FY2012. Our revised revenue forecasts for FY2011, and FY2012, are $4.41 million (down from $4.80 million) and $4.80 million (down from $5.23 million), respectively. Our revised net earnings forecasts are $0.19 million (EPS: $0.005) and $0.20 million (EPS: $0.005), respectively. Our previous forecasts were $0.24 million (EPS: $0.01) and $0.30 million (EPS: $0.01).

Cash Position

Free cash flows for the first six months of FY2011, were $0.09 million versus negative $0.10 million in the comparable period in the previous year. Cash at the end of Q2-2011, was $1.11 million. Working capital at the end of Q2-2011 was $2.34 million. The following table shows the company's liquidity position at the end of Q2-2011.

Liquidity Analysis	2008	2009	2010	Q1-2011	Q2-2011
Working Capital	$1,722,974	$2,266,003	$2,289,382	$2,346,207	$2,339,694
Current Ratio	4.52	5.77	6.34	8.80	9.69
Debt / Capital	3.4%	1.6%	1.05%	0.7%	0.6%
EBIT Interest Coverage Ratic	(11.6)	30.2	8.2	26.24	20.19

The company announced on September 22, 2010, its intention to make a Normal Course Issuer Bid to repurchase up to 2 million of its outstanding common shares for cancellation. A total of 1.34 million shares were purchased at an average price of $0.073 (as of March 31, 2011).

Stock Options and Warrants We estimate the company currently has 2.46 million stock options outstanding (weighted average exercise price of $0.13) and 5 million warrants outstanding exercisable at $0.17 (expiry date - August 2011).

Valuation and Rating Our revised DCF valuation is $0.25 per share (previous estimate: $0.27 per share) as we lowered our near term forecasts. **IWG's Enterprise Value (EV) to our FY2011 revenue forecast, and EV to our FY2011 EBITDA forecast, are just 0.1x, and 1.08x, versus the industry (Aerospace and Deference) average ratios of 1.0x, and 8.3x, respectively. We reiterate our BUY rating, but lower fair value estimate from $0.30 per share to $0.25 per share.**

Risk

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 dollars.

We have maintained our risk rating at 3 (Average).

Appendix

STATEMENTS OF OPERATIONS (in C$)	**2008**	**2009**	**2010**	**2011E**	**2012E**
Sales	**4,156,469**	**4,952,911**	**4,381,894**	**4,411,705**	**4,797,992**
COGS	1,922,205	1,827,070	2,000,349	1,941,150	2,111,117
Gross Profit	**2,234,264**	**3,125,841**	**2,381,545**	**2,470,555**	**2,686,876**
Expenses					
Selling Expenses	328,773	427,924	449,708	419,112	455,809
Research&Development	772,194	875,219	421,517	474,566	486,431
General & Administration	1,186,442	1,230,689	1,264,151	1,298,523	1,330,986
Stock Option Compensation	18,408	35,396	27,364	31,528	47,980
Foreign exchange loss(gain)				(120,000)	
EBITDA	**(71,553)**	**556,613**	**218,805**	**366,825**	**365,670**
Amortization	64,758	60,389	56,969	57,091	55,350
EBIT	**(136,311)**	**496,224**	**161,836**	**309,734**	**310,320**
Interest & Bank Charges	11,733	16,454	19,715	15,399	6,940
	-				
Earnings from operations, befor	**(148,044)**	**479,770**	**142,121**	**294,336**	**303,380**
Government Assistance					
Gains on settlement of notes and ac	-	-	-	-	-
Gain on sale of commerical divisio	-	-	-	-	-
Foreign Exchange		(54,754)	47,202		
Wite-down of assets and costs	-	-	-	-	-
EBT	**(148,044)**	**425,016**	**189,323**	**294,336**	**303,380**
Taxes/(Income Tax Recovery)	(51,000)	113,000	53,900	100,427	103,513
Net Earnings for the eperiod	**(97,044)**	**312,016**	**135,423**	**193,908**	**199,867**
EPS	(0.00)	0.01	0.003	0.005	0.005

BALANCE SHEETS (in C$)	**2008**	**2009**	**2010**	**2011E**	**2012E**
Assets					
Cash	940,302	1,362,363	1,122,172	1,211,466	1,393,169
Accounts receivable	710,770	672,010	880,150	849,483	769,886
Inventory	496,335	577,993	569,976	527,542	573,733
Prepaid Expenses	65,407	42,807	75,696	42,710	46,450
Future Income Tax		86,000	70,000	70,000	70,000
Current Assets	**2,212,814**	**2,741,173**	**2,717,994**	**2,701,201**	**2,853,238**
Equipment & Furniture	250,607	229,135	213,363	186,272	160,922
Deferred Dev Costs and foreign exchange loss			178,170	328,170	478,170
Future income tax assets	478,000	279,000	241,100	241,100	241,100
Total Assets	**2,941,421**	**3,249,308**	**3,350,627**	**3,456,743**	**3,733,431**
Liabilities & Shareholders' Equity					
Accounts Payables & Accrued Liabilities	449,247	449,413	409,381	389,527	422,223
Demand / Factoring Loan	-	-	-	-	-
Customer Deposits, Bank and Shareholder's loan					
Current portion of capital lease obligations and loan	40,593	25,757	19,231	3,855	-
Current portion of notes payable					
Current Liabilities	**489,840**	**475,170**	**428,612**	**393,382**	**422,223**
Convertible Debentures					
Obligations under capital lease and other loan	45,206	18,101	11,566	7,711	7,711
Notes and Loans payable					
Shareholder's Equity					
Share Capital	8,108,202	8,111,487	8,103,112	8,022,876	8,022,876
Contributed surplus	165,803	200,164	227,528	259,056	307,036
Deficit	(5,867,630)	(5,555,614)	(5,420,191)	(5,226,283)	(5,026,415)
Total Liabilities & Shareholders' Equity	**2,941,421**	**3,249,308**	**3,350,627**	**3,456,743**	**3,733,431**

STATEMENTS OF CASH FLOWS (in C$)	**2008**	**2009**	**2010**	**2011E**	**2012E**
Operating Activities					
Net earnings for the period	(97,044)	312,016	135,423	193,908	199,867
Items not involving cash					
Income tax recovery	(51,000)	113,000	53,900		
Gain on liabilities and sale of commerical division					
Unreallized foreign exchange and other gains	(6,500)	(47,688)	24,024		
Compensation related to stock option plan	18,408	35,396	27,364	31,528	47,980
Write-downs					
Interest accrued(on NP, on shareholer loan)					
Amortization and equipment write-down	64,758	60,388	56,969	57,091	55,350
	(71,378)	**473,112**	**297,680**	**282,528**	**303,197**
Changes in non-cash operating working capital					
Accounts receivable	17,008	86,448	(232,164)	30,667	79,597
Inventory	145,897	(81,658)	8,017	42,434	(46,191)
Prepaid expenses	(27,438)	22,600	(32,889)	32,986	(3,740)
Accounts payable and accrued liabilities	24,175	166	(40,032)	(19,854)	32,696
Customer Deposits	-	-	-	-	-
	159,642	**27,556**	**(297,068)**	**86,233**	**62,362**
Cash from from (used in) operations	**88,264**	**500,668**	**612**	**368,761**	**365,559**
Investing activities					
Purchase of furniture and equipment	(47,173)	(38,916)	(25,074)	(30,000)	(30,000)
Product development costs incured			(178,170)	(150,000)	(150,000)
Proceeds on sale of commerical division					
Deferred Development Costs					
Purchase of equipment and leaseholds	**(47,173)**	**(38,916)**	**(203,244)**	**(180,000)**	**(180,000)**
Financing activities					
Proceeds(repayments) of demand loans					
Proceeds (repayments) of payables and leases	(33,801)	(41,941)	(29,184)	(19,231)	(3,855)
Convertible debenture issued					
Issue of common share for cash	494,080	2,250		-	
Purchase of capital stock			(8,375)	(80,236)	
	460,279	**(39,691)**	**(37,559)**	**(99,467)**	**(3,855)**
Increase (decrease) in cash	501,370	422,061	(240,191)	89,294	181,704
Cash beginning of period	438,932	940,302	1,362,363	1,122,172	1,211,466
Cash end of period	**940,302**	**1,362,363**	**1,122,172**	**1,211,466**	**1,393,169**

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:
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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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