Fundamental Research Corp.
Investment Analysis for Intelligent Investors

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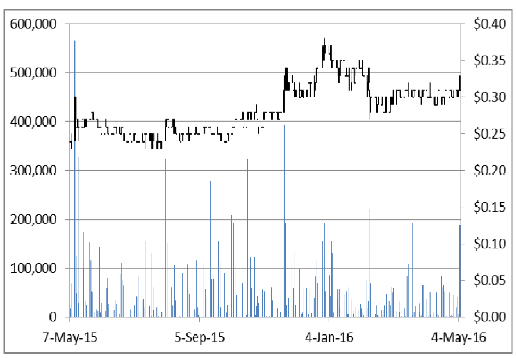
IWG Technologies Inc. (TSX-V: IWG) – Q2 revenues up by 9% YOY and in line with expectations

Sector/Industry: Aerospace Products and Services **www.iwgtech.com**

Market Data (as of May 11, 2016)

Current Price	**C$0.35**
Fair Value	**C$0.60**
Rating*	**BUY**
Risk*	**3**
52 Week Range	C$0.23 - C$0.38
Shares O/S	39.36 mm
Market Cap	C$13.78 mm
P/S (forward)	1.4x
P/E (forward)	9.6x
P/B	1.9x
YoY Return	29.6%
YoY TSX-V	-3.2%

*see back of report for rating and risk definitions



Highlights

- On March 31, 2016, IWG Technologies announced receipt of Transport Canada's approval to install their water systems on Boeing's (NYSE: BA) 737-600/700/800 aircraft. This is a major milestone for the company and marks the company's potential entry into the commercial airline sector.
- Q2-2016 (quarter ended March 31, 2016) revenues were up by 9% YOY to $2.54 million, and were in line with our expectations. Similar to Q1, all of the growth came from the stronger US$. Product sales dropped slightly.
- For the six month period, revenues grew by 8% YOY to $4.66 million.
- The near-term outlook of the global business jet sector remains soft due to the strong US$, and uncertainties in global economic growth, especially in China, Latin America, and Russia. However, the strong US$ should continue to benefit companies such as IWG, with manufacturing facilities in Canada.
- We are maintaining our FY2016 revenue forecast of $10.16 million, but raising our net profit forecast from $1.35 million to $1.43 million (EPS: $0.03).
- Balance sheet continues to remains strong with $5.93 million in working capital ($0.15 per share), and a very low debt to capital of 4%.
- We are raising our fair value estimate from $0.50 to $0.60 per share.

Financial Summary (YE Sept 30) (C$)	2014	2015	2016E	2017E
Revenue	7,396,697	9,514,431	10,157,987	10,919,836
Gross Margin	48.96%	47.75%	54.00%	53.00%
Net Income	751,022	1,282,171	1,432,530	1,752,853
EPS (basic)	0.02	0.03	0.04	0.04
Cash	1,450,939	3,349,875	4,270,763	5,483,607
Assets	6,479,936	8,325,765	9,943,054	11,767,434
Debt to Capital	2.59%	4.31%	3.36%	2.07%
ROE	15.82%	21.87%	19.64%	19.61%
ROIC	24.51%	35.03%	38.58%	41.20%

IWG Technologies 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.

Updates

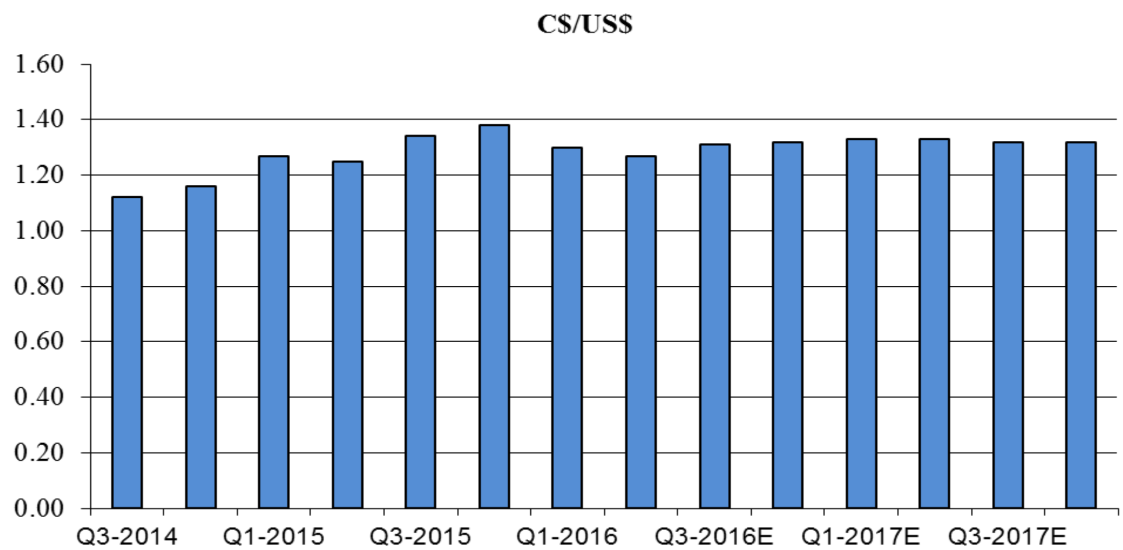
Management updates: On March 7, 2016, the company announced the appointment of Darryl Jacobs as the company's Executive Vice President. He was previously the President of the company's wholly-owned subsidiary, International Water-Guard Industries Inc. (IWG-I). Steven Bis has been promoted from Director of Operations to Senior Vice President and General Manager of IWG-I, and is now responsible for overseeing the entire operating business.

IWG Receives Provisional STC for Commercial Airlines: On March 31, 2016, IWG Technologies announced it received a provisions-only Supplemental Type Certificate ("STC") from Transport Canada for the installation of a new Ultra Violet (UV) Water Sterilization system for Boeing's 737-600/700/800 aircraft. This is the first STC that IWG has received for a commercial airline, and marks a significant milestone for the company. The company intends to reach out to aircraft operators, completion centers, airlines, and maintenance centers from all over the world. We consider this as a very exciting development for the company as the company had been targeting the commercial airline market for several years. The company has yet to disclose any further details on this development, but we expect future updates on sales and orders will be key catalysts for the company's share price.

Another quarter of revenue growth

IWG reported 9% YOY revenue growth in Q2-2016. The company had reported 6% YOY revenue growth in Q1-2016. Q2-2016 revenues were $2.54 million versus $2.33 million in Q2-2015. For the six month period, revenues grew by 8% to $4.66 million.

The company does not typically disclose the impact of exchange rates on its revenues. In their MD&A, the company disclosed that revenue growth came from the strong US$ partially offset by a drop in unit sales. Product sales had dropped slightly in Q1-2016 as well. The US$ is expected to stay strong this year, implying that exchange rates will continue to benefit IWG in the near-term.



Source: TD Economics

We had mentioned in our previous reports our cautious near-term outlook on the business jet sector due to the strong US$, and uncertainties in global economic growth, especially in China, Latin America, and Russia. Aerospace components supplier, Honeywell International (Nasdaq: HON), recently announced that new jet sales are likely to drop by 10% in 2016. They expect a slight recovery in 2017, followed by robust growth in 2018. Bombardier (TSX: BBD-B) has predicted a 25% decrease in their business jet shipments in 2016. Global deliveries of business jets dropped 4.7% YOY in the first quarter in 2016, from 128 to 122.

FIRST QUARTER SHIPMENTS OF AIRPLANES MANUFACTURED WORLDWIDE

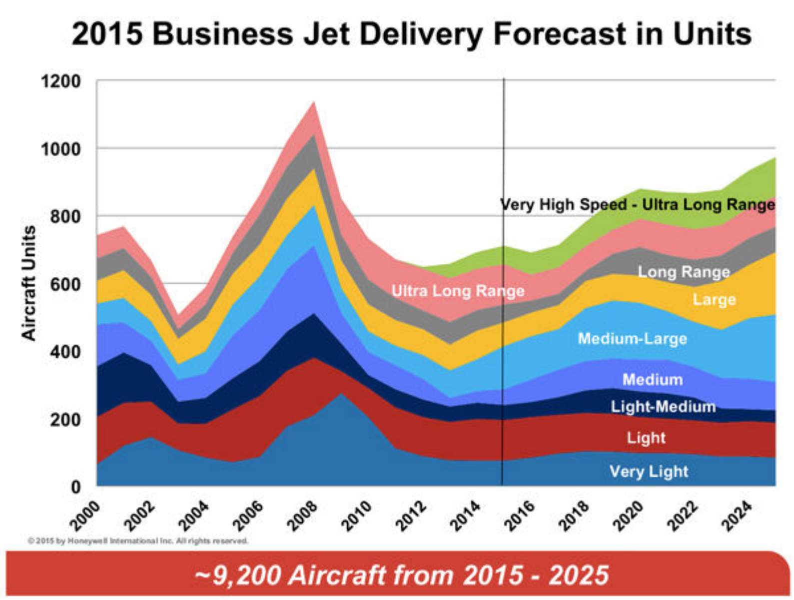
	2015	2016	CHANGE
Piston	193	191	-1.0%
Turboprops	117	109	-6.8%
Business Jets*	128	122	-4.7%
Total Shipments*	**438**	**422**	**-3.7%**
Total Billings*	**$4.4B**	**$4.0B**	**-9.5%**

FIRST QUARTER SHIPMENTS OF ROTORCRAFT MANUFACTURED WORLDWIDE

	2015	2016	CHANGE
Piston	60	60	0.0%
Turbine	141	103	-27.0%
Total Shipments	**201**	**163**	**-18.9%**
Total Billings	**$0.8B**	**$0.6B**	**-30.4%**

Source: GAMA

Honeywell has slightly revised their long term forecast from 9,450 (US$280 billion) to 9,200 ($270 billion) new business jet deliveries from 2015 to 2025. According to GAMA, there were 9,218 business jet deliveries between 2005 to 2015.



Source: Honeywell

Replacement demand is also expected to drive future growth. North America is the largest consumer of business jets, with 61% of global demand, according to Honeywell. Global Jet Capital's research indicates that 28% of the mid-to-large jets in the U.S. are over 20 years old, and 15% exceed 30 years. According to Bombardier, within the next 10 years, 1,825 business aircrafts will retire worldwide, up from 1,350 from 2000 – 2014.

We are maintaining our FY2016 revenue estimate at $10.16 million (6.8% YOY growth), but raising our FY2017 estimate from $10.22 million to $10.92 million based on our stronger outlook for the US$ and as revenues kick in from the commercial airline sector.

Gross margins improve

Gross margin improved from 48% to 55% primarily due to the stronger exchange rate and were higher than our expectations.

Margins	2015-Q2	2016-Q2	2015-6mo	2016-6mo
Gross	47.7%	55.2%	48.3%	54.1%
EBITDA	18.2%	18.9%	18.5%	17.7%
EBT	18.0%	18.5%	18.3%	17.3%
Net	12.7%	13.7%	12.8%	13.3%

Expenses / Sales	2015-Q2	2016-Q2	2015-6mo	2016-6mo
Selling Expenses	6.7%	8.5%	8.7%	9.5%
Engineering and product dev.	9.6%	10.0%	7.4%	9.8%
G & A	13.2%	17.9%	13.6%	17.1%
Total	**29.5%**	**36.4%**	**29.7%**	**36.4%**

Engineering and product development expenses were $0.25 million in the quarter versus $0.22 million in Q2-2015. For the six month period, these expenses were $0.46 million versus $0.32 million in the comparable period in the previous year. Expensed and capitalized product development expenses were down by 4% YOY to $0.72 million in the six month period. Capitalized costs were higher last year due to the development of the T-Series water heater product.

General and Administrative expenses increased by 48% YOY to $0.44 million as the company started implementing a new ERP software this year. For the six month period, G&A costs were up by 35% YOY to $0.77 million.

EPS estimates

Net income grew by 17% YOY to $0.35 million (EPS: $0.009) in Q2-2016, and by 12% YOY to $0.62 million (EPS: $0.016) in the six month period. **We are raising our FY2016 net profit estimate from $1.35 million (EPS: $0.03) to $1.43 million (EPS: -$0.04), and our FY2017 estimate from $1.22 million (EPS: $0.03) to $1.75 million (EPS: $0.04).**

Free cash flows improved YOY from $0.22 million to $0.47 million in the first six months of FY2016, due to stronger cash from operations and lower R&D development costs.

	2014- 6 mo	2015 - 6 mo	2016 - 6 mo
Cash Flow from Operation	(147,525)	708,261	812,325
Cash Flow from Financing	(82,493)	27,307	7,394
Cash Flow from Investing	(274,345)	(489,293)	(343,886)
Net Change in Cash	(504,363)	246,275	475,833
FCF	(421,870)	218,968	468,439

The company had $3.83 million ($0.10 per share) in cash at the end of Q2. Working capital and the current ratio were $5.93 million ($0.15 per share) and 7x, respectively. Debt to capital dropped further to 3.9%. EBIT interest coverage was 52x versus the Aircraft Systems, Components and Equipment industry average of 7.2x. The industry average debt to capital is 28%.

Liquidity Analysis	2014	2015	Q2-2016	Industry Avg.
Working Capital	$3,434,689	$5,173,963	$5,932,478	N/A
Current Ratio	4.16	5.20	6.99	1.70
Debt / Capital	2.6%	4.3%	3.9%	27.7%
EBIT Interest Coverage Ratio	36.4	63.7	51.64	7.20

We continue to believe that that low debt to capital and the strong cash from operations give the company a strong platform and a lot of flexibility to grow through acquisitions and/or explore growth initiatives.

Stock Options and Warrants

The company currently has 1.61 million options with a weighted average exercise price of $0.25, and no warrants outstanding. All of the options are currently in the money.

Valuation

We are maintaining our BUY rating, and raising our fair value estimate from $0.50 to $0.60 per share. Our Discounted Cash Flow ("DCF") valuation increased from $0.44 to $0.50 per share as we raised our EPS estimates. Our comparables valuation increased from $0.55 to $0.59 per share.

	EV / Revenues	EV / EBITDA	P / E
IWG (forward)	1.0	5.3	9.6
Aircraft Systems, Components and Equipment (trailing)	1.4	10.8	19.8
Fair Value	**$0.45**	**$0.62**	**$0.71**
Average	**$0.59**		

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.
- Sales to a few customers account for over 80% of total revenues.
- Competition
- Foreign exchange risks. IWG attempts to hedge some of the risk with exchange rate contracts.

Appendix

STATEMENTS OF OPERATIONS (in C$)	2014	2015	2016E	2017E
Sales	**7,396,697**	**9,514,431**	**10,157,987**	**10,919,836**
COGS	3,775,350	4,970,995	4,571,094	5,023,125
Gross Profit	**3,621,347**	**4,543,436**	**5,586,893**	**5,896,712**
Expenses				
Selling Expenses	485,935	854,820	937,074	1,007,355
Engineering and product development	574,205	720,303	1,008,424	1,018,508
General & Administration	1,336,399	1,211,648	1,625,278	1,419,579
Stock Option Compensation	36,644	15,539	50,790	54,599
Foreign exchange loss(gain)				
EBITDA	**1,188,164**	**1,741,126**	**1,965,327**	**2,396,670**
Interest & Bank Charges	32,613	27,340	29,475	27,950
Earnings from operations, before undernoted	**1,155,551**	**1,713,786**	**1,935,852**	**2,368,720**
Foreign Exchange	(118,083)	40,318		
Extraordinary				
EBT	**1,037,468**	**1,754,104**	**1,935,852**	**2,368,720**
Taxes/(Income Tax Recovery)	286,446	471,933	503,321	615,867
Net Earnings for the period	**751,022**	**1,282,171**	**1,432,530**	**1,752,853**
EPS	0.02	0.03	0.04	0.04

BALANCE SHEET				
(in C$)	2014	2015	2016E	2017E
Assets				
Cash	1,450,939	3,349,875	4,270,763	5,483,607
Accounts receivable	1,648,308	1,624,553	1,809,381	1,945,084
Inventory	1,331,444	1,348,438	1,414,628	1,554,519
Prepaid Expenses	92,524	83,268	105,945	116,422
Future Income Tax		-	-	-
Current Assets	**4,523,215**	**6,406,134**	**7,600,717**	**9,099,632**
LT Receivables	251,416		-	-
Equipment & Furniture	315,046	424,799	539,340	635,183
Intangibles	1,390,259	1,494,832	1,802,997	2,032,619
Total Assets	**6,479,936**	**8,325,765**	**9,943,054**	**11,767,434**
			9,943,054	11,767,434
Liabilities & Shareholders' Equity				
Accounts Payables & Accrued Liabilities	764,235	740,579	889,794	977,785
Loans and borrowings	111,165	13,289	71,063	64,590
Provisions	213,126	301,231	301,231	301,231
Income Tax		177,072	177,072	177,072
Current Liabilities	**1,088,526**	**1,232,171**	**1,439,160**	**1,520,678**
Loans and borrowings	26,399	281,461	208,441	143,851
Deferred income tax	190,480	261,068	261,068	261,068
Shareholder's Equity				
Share Capital	2,601,763	2,690,038	2,690,038	2,690,038
Contributed surplus	28,051	34,139	84,929	139,528
Deficit	2,544,717	3,826,888	5,259,418	7,012,271
Total Liabilities & Shareholders' Equity	**6,479,936**	**8,325,765**	**9,943,054**	**11,767,434**

STATEMENT OF CASH FLOWS (in C$)	2014	2015	2016E	2017E
Operating Activities				
Net earnings for the period	751,022	1,282,171	1,432,530	1,752,853
Items not involving cash				
Income tax recovery	286,446	471,933		
Unreallized foreign exchange and other gains	9,746	11,172		
Compensation related to stock option plan	36,644	15,539	50,790	54,599
Interest accrued(on NP, on shareholer loan)	32,613	27,340		
Amortization and equipment write-down	292,334	544,605	552,294	673,910
Provision for impairment of intangible assets		170,924		
Change in value of forward contracts	49,981	4,450		
	1,458,786	**2,528,134**	**2,035,614**	**2,481,362**
Changes in non-cash operating working capital				
Accounts receivable	(549,895)	50,897	(184,828)	(135,704)
Inventory	(260,956)	(16,994)	(66,190)	(139,891)
Prepaid expenses	(10,867)	9,256	(22,677)	(10,477)
Accounts payable and accrued liabilities	179,624	59,999	149,215	87,991
Customer Deposits	(17,331)	(19,788)	-	-
Provisions				
	(659,425)	**83,370**	**(124,480)**	**(198,081)**
Cash from from (used in) operations	**799,361**	**2,611,504**	**1,911,134**	**2,283,281**
Investing activities				
Purchase of furniture and equipment	(163,303)	(217,972)	(225,000)	(230,625)
Product development costs incured	(363,359)	(761,929)	(750,000)	(768,750)
	(526,662)	**(979,901)**	**(975,000)**	**(999,375)**
Financing activities				
Proceeds(repayments) of demand loans	(80,250)	(95,226)	-	
Proceeds (repayments) of payables and leases	(25,917)	(18,088)	(15,246)	(12,763)
Repayment of royalties liability	(147,919)	(13,677)	-	-
Convertible debenture issued				
Government Loan		315,500		(58,300)
Issue of common share for cash	69,000	78,824	-	-
Purchase of capital stock				
	(185,086)	**267,333**	**(15,246)**	**(71,063)**
Increase (decrease) in cash	87,613	1,898,936	920,888	1,212,843
Cash beginning of period	1,363,326	1,450,939	3,349,875	4,270,763
Cash end of period	**1,450,939**	**3,349,875**	**4,270,763**	**5,483,607**

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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