

Consolidated Financial Statements

Genesis Worldwide Inc.

December 31, 2007

AUDITORS' REPORT

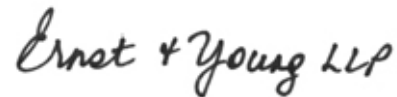
To the Shareholders of
Genesis Worldwide Inc.

We have audited the consolidated balance sheets of **Genesis Worldwide Inc.** as at December 31, 2007 and 2006 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
February 26, 2008.



Chartered Accountants
Licensed Public Accountants

Genesis Worldwide Inc.

CONSOLIDATED BALANCE SHEETS

As at December 31

	2007	2006
	\$	\$
ASSETS		
Current		
Cash and cash equivalents <i>[note 4]</i>	5,987,862	1,011,386
Accounts receivable <i>[notes 5, 12 and 15]</i>	11,347,550	5,778,735
Inventories and deposits on equipment <i>[note 6]</i>	895,686	769,441
Prepaid expenses	535,485	470,352
Total current assets	18,766,583	8,029,914
Long-term accounts receivable	287,500	—
Property, plant and equipment <i>[note 7]</i>	4,530,567	2,870,557
Intangible asset <i>[note 8]</i>	2,050,548	2,320,199
	25,635,198	13,220,670
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	7,566,970	4,896,193
Warrants liability <i>[note 9]</i>	—	600,000
Deferred revenue - current portion	4,459,648	2,141,733
Minimum royalty payment obligations <i>[note 8]</i>	173,330	23,140
Total current liabilities	12,199,948	7,661,066
Long-term		
Deferred revenue	287,500	—
Debentures due to related parties <i>[note 9]</i>	—	3,190,585
Minimum royalty payment obligations <i>[note 8]</i>	1,377,869	1,549,162
Total long-term liabilities	1,665,369	4,739,747
Commitments and contingencies <i>[notes 8 and 13]</i>		
Shareholders' equity		
Capital stock <i>[note 10]</i>	56,733,075	42,174,920
Contributed surplus <i>[note 10]</i>	1,078,474	65,293
Deficit	(46,041,668)	(41,420,356)
Total shareholders' equity	11,769,881	819,857
	25,635,198	13,220,670

See accompanying notes

On behalf of the Board:

(Signed) John Gardner
Director

(Signed) Ralph Steedman
Director

Genesis Worldwide Inc.

**CONSOLIDATED STATEMENTS OF LOSS,
COMPREHENSIVE LOSS AND DEFICIT**

Year ended December 31

	2007	2006
	\$	\$
Revenues <i>[notes 3, 12 and 15]</i>		
Licensing	8,523,405	3,506,945
Structural products	15,920,094	16,705,823
Total revenues	<u>24,443,499</u>	<u>20,212,768</u>
Direct cost of revenues		
Licensing	4,048,674	1,731,301
Structural products	12,118,822	16,153,807
Total direct cost of revenues	<u>16,167,496</u>	<u>17,885,108</u>
	<u>8,276,003</u>	<u>2,327,660</u>
Expenses		
Research and development <i>[note 3[k]]</i>	1,077,313	1,040,760
SR&ED investment tax credit	(770,995)	—
Selling and marketing	1,924,268	1,340,919
Engineering and project management	1,740,989	1,368,533
General and administrative	4,338,800	3,592,071
Occupancy	1,517,610	1,182,459
Plant commissioning and restructuring costs <i>[note 11]</i>	776,418	—
	<u>10,604,403</u>	<u>8,524,742</u>
Loss before other expenses	<u>(2,328,400)</u>	<u>(6,197,082)</u>
Amortization of property, plant and equipment <i>[note 7]</i>	715,846	616,196
Amortization of intangible asset	269,651	269,651
Foreign exchange gain	(19,117)	(64,560)
Bank interest expense (income), net	(248,048)	78,206
Minimum royalty accretion	298,897	292,943
Debenture and loan interest expense <i>[note 9]</i>	1,162,233	70,094
	<u>2,179,462</u>	<u>1,262,530</u>
Net loss and comprehensive loss for the year	<u>(4,507,862)</u>	<u>(7,459,612)</u>
Deficit, beginning of year, as reported	(41,420,356)	(33,960,744)
Transition adjustment <i>[note 2]</i>	(113,450)	—
Adjusted deficit, beginning of period	<u>(41,533,806)</u>	<u>(33,960,744)</u>
Deficit, end of year	<u>(46,041,668)</u>	<u>(41,420,356)</u>
Loss per share		
Basic and diluted	\$ (0.17)	\$ (0.36)
Weighted average number of shares outstanding <i>[note 3[o]]</i>	<u>25,969,159</u>	<u>20,982,858</u>

See accompanying notes

Genesis Worldwide Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31

	2007	2006
	\$	\$
OPERATING ACTIVITIES		
Net loss for the year	(4,507,862)	(7,459,612)
Adjustments for non-cash items		
Amortization of property, plant and equipment and intangible asset	985,497	885,847
Stock-based compensation expense	159,581	34,248
Debenture interest expense accretion <i>[note 9]</i>	815,965	33,950
Minimum royalty accretion	298,897	292,943
	<u>(2,247,922)</u>	<u>(6,212,624)</u>
Changes in non-cash working capital balances related to operations		
Accounts receivable, net	(5,568,815)	21,730
Inventories and deposits on equipment	(126,245)	1,009,885
Prepaid expenses	(65,133)	(81,749)
Accounts payable and accrued liabilities	1,839,767	(1,485,752)
Deferred revenue	2,317,915	(515,359)
Cash used in operating activities	<u>(3,850,433)</u>	<u>(7,263,869)</u>
FINANCING ACTIVITIES		
Decrease in bank indebtedness	—	(2,034,410)
Debenture proceeds (repayment) <i>[note 9]</i>	(4,120,000)	4,000,000
Debenture financing costs <i>[note 9]</i>	—	(243,365)
Capital stock issued, net of issue costs paid <i>[note 10]</i>	15,642,765	—
Cash provided by financing activities	<u>11,522,765</u>	<u>1,722,225</u>
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(2,375,856)	(1,081,857)
Minimum royalties paid <i>[note 8]</i>	(320,000)	(200,000)
Cash used in investing activities	<u>(2,695,856)</u>	<u>(1,281,857)</u>
Net increase (decrease) in cash and cash equivalents during the year	4,976,476	(6,823,501)
Cash and cash equivalents, beginning of year	1,011,386	7,834,887
Cash and cash equivalents, end of year	<u>5,987,862</u>	<u>1,011,386</u>
Supplemental cash flow information		
Interest paid	346,268	143,669
Initial public offering costs not yet paid	831,010	—

See accompanying notes

Genesis Worldwide Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

1. BASIS OF PRESENTATION

Genesis Worldwide Inc. and its wholly-owned subsidiaries, KML Limited Partnership, GenesisTP Inc., 6118216 Canada Inc., Light Steel Joist Solutions Inc., KML Engineered Homes Ltd. and KML Building Solutions Inc. [collectively the "Company" or "Genesis"], develops and licenses light steel structural building technologies aimed at the residential, commercial and institutional building markets. Genesis offers licensees a turn-key solution enabling them to custom design, manufacture and install complete light steel building structures. The Company refers to the licensing of its technologies as the licensing division or licensing business and the application of its technologies to build structural products as the structural products division.

2. CHANGES IN ACCOUNTING POLICIES

[a] Adoption of recent Canadian accounting standards in 2007

Accounting changes

In July 2006, the Accounting Standards Board issued a replacement of The Canadian Institute of Chartered Accountants' ["CICA"] Handbook Section 1506, *Accounting Changes* ["Section 1506"]. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impractical, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors in the financial statements. Section 1506 also requires disclosure of information relevant to assessing the possible impact that the application of a new accounting standard will have on the Company's consolidated financial statements in the period of initial application. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes. The adoption of Section 1506 effective January 1, 2007 has had no impact on these consolidated financial statements, other than disclosures.

Comprehensive income and financial instruments

On January 1, 2007, the Company adopted CICA Handbook Section 1530, *Comprehensive Income*; Section 3855, *Financial Instruments - Recognition and Measurement*; and Section 3861, *Financial Instruments - Disclosure and Presentation*.

Genesis Worldwide Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Section 1530, Comprehensive Income

The new rules require that the Company present a new consolidated statement of comprehensive income, which is comprised of the change in equity [net assets] of an enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The Company had no other comprehensive income for all periods presented.

Section 3855, Financial Instruments - Recognition and Measurement

Section 3861, Financial Instruments - Disclosure and Presentation

Financial assets and financial liabilities

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurements are dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. The standards require that all financial assets be classified as held for trading, available for sale, held to maturity, or loans and receivables. The standards require that all financial assets, including all derivatives, be subsequently measured at fair value with the exception of loans and receivables, debt securities classified as held to maturity, and available for sale financial assets that do not have quoted market prices in an active market. Settlement date accounting continues to be used for all financial assets, except changes in fair value between the trade date and settlement date are reflected in the consolidated statements of loss, comprehensive loss and deficit for held for trading financial assets, while changes in fair value between trade date and settlement date are reflected in other comprehensive income for available for sale financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets that are initially recognized at fair value and thereafter are accounted for at amortized cost.

Other liabilities

Other liabilities are non-derivative financial liabilities that are initially recognized at fair value and thereafter are recorded at amortized cost and include all liabilities, other than derivatives or liabilities to which the fair value designation has been applied.

Genesis Worldwide Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

Transaction costs

Transaction costs related to debt financing are netted against the carrying value of the liability and then amortized over the expected life of the financial instrument using the effective interest method.

Determination of fair value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined using valuation techniques which refer to observable market data. These include comparisons with similar instruments where market observable prices exist, discounted cash flows analysis, option pricing models and other valuation techniques commonly used by market participants. For certain derivatives, fair values may be determined in whole or in part from valuation techniques using non-observable market data or transaction prices. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

Classification of financial instruments

The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007:

- Cash and cash equivalents are classified as held for trading. Changes in fair value for the period are recorded in income as interest income.
- Accounts receivable are classified as loans and receivables.
- Accounts payable and accrued liabilities, warrants liability, debentures and minimum royalty payment obligations are accounted for as other liabilities at amortized cost.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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On January 1, 2007, the Company made the following adjustments to its consolidated balance sheet presentation to adopt the new requirements for financial instruments:

	As at January 1, 2007
Debit (credit)	\$
Debitures due to related parties <i>[note 9]</i>	(113,450)
Deficit	113,450

[b] New Canadian accounting standards

The CICA has issued new accounting standards, Section 1535, *Capital Disclosures*; Section 3031, *Inventories*; Section 3862, *Financial Instruments - Disclosures*; and Section 3863, *Financial Instruments - Presentation*, which are applicable to the Company's 2008 fiscal year.

Section 1535, Capital Disclosures

This new standard requires disclosure of the Company's objectives, policies, and processes for managing capital; quantitative data about what the Company regards as capital; whether the Company has complied with any capital requirements; and, if the Company has not complied, the consequences of such non-compliance. The new accounting standard covers disclosure only and will have no effect on the financial results of the Company.

Section 3031, Inventories

The new standard provides more guidance on the measurement and disclosure requirements for inventories than the previous standard, Section 3030, *Inventories*. Specifically, the new standard requires that inventories be measured at the lower of cost and net realizable value, and provides more guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The Company is assessing the effect of the new standard and does not anticipate a material effect on its results.

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Section 3862, Financial Instruments - Disclosures
Section 3863, Financial Instruments - Presentation

These new standards replace Section 3861, *Financial Instruments - Disclosure and Presentation*. Presentation requirements have not changed. Enhanced disclosure is required to assist users of the financial statements in evaluating the significance of financial instruments on the Company's financial position and performance, including qualitative and quantitative information about the Company's exposure to risks arising from financial instruments. The new accounting standards cover disclosure only and will have no effect on the financial results of the Company.

[c] Convergence with International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board ratified a strategic plan that will result in Canadian GAAP, as used by public companies, being evolved and converged with International Financial Reporting Standards ["IFRS"] over a transitional period to be complete by 2011. The Company will be required to report using the converged standards effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Canadian GAAP will be converged with IFRS through a combination of two methods: as current joint-convergence projects of the United States' Financial Accounting Standards Board and the International Accounting Standards Board are agreed upon, they will be adopted by Canada's Accounting Standards Board and may be introduced in Canada before the complete changeover to IFRS; and standards not subject to a joint-convergence project will be exposed in an omnibus manner for introduction at the time of the complete changeover to IFRS. As the International Accounting Standards Board currently, and expectedly, has projects underway that should result in new pronouncements that continue to evolve IFRS, and as this Canadian convergence initiative is in an early stage as of the date of these consolidated financial statements, it is premature to currently assess the impact of the Canadian initiative on the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

[a] Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated on consolidation.

Genesis Worldwide Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[b] Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Some of the Company's more significant estimates include those related to the allowance for doubtful accounts, property, plant and equipment amortization, intangible asset and related amortization, accounts payable and accrued liabilities, revenue and profit recognition related to percentage-of-completion determination and cost estimates in cost of revenues, revenue recognition for license arrangements with multiple elements and stock-based compensation expense. Actual results could differ from those estimates and the differences may be material.

[c] Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and short-term guaranteed investment certificates with original maturities of 90 days or less at the date of purchase.

[d] Accounts receivable and allowance for doubtful accounts

The Company evaluates the collectibility of its accounts receivable based on a combination of factors. In cases where management is aware of circumstances that may impair a specific customer's ability to meet its financial obligation to the Company, a specific allowance against the amounts due to the Company is recorded which reduces the net recognized receivable to the amount that management reasonably believes will be collected.

[e] Inventories

Inventories of raw materials are valued at the lower of cost and replacement cost. Inventories of work-in-progress representing panels and trusses in the process of being manufactured are valued at the lower of cost [including appropriate overhead charges] and net realizable value. Equipment that has been received from suppliers but not yet delivered to customers under licensing arrangements has been included within inventory.

Genesis Worldwide Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[f] Transaction costs

Transaction costs related to the debenture financing are netted against the carrying value of the liability and then amortized over the estimated term of the debentures using the effective interest method.

[g] Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated amortization. Amortization commences when the assets are put into use and is based on their estimated useful lives as follows:

Leasehold improvements	10 years straight-line [or the term of the lease whichever is less]
Machinery and equipment	10% straight-line
Motor vehicles	33.33% declining balance
Furniture and fixtures	20% declining balance
Computer equipment	5 years straight-line
Computer software	30% declining balance

[h] Intangible asset

The intangible asset consists of a technology license which is amortized on a straight-line basis over 10 years.

[i] Impairment of long-lived assets

The Company reviews its property, plant and equipment and finite life intangible asset [technology license] for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. When such an event occurs, management estimates the future undiscounted cash flows expected to result from the use of the asset and its eventual disposition. In the event the undiscounted cash flows are less than the carrying amount of the asset, an impairment loss equal to the excess of the carrying amount over the fair value, determined on a discounted cash flow basis, is charged to the consolidated statements of loss, comprehensive loss and deficit.

Genesis Worldwide Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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[j] Revenue recognition

Revenue is recognized when earned, specifically when persuasive evidence of an arrangement exists, services and products have been delivered and the sales price or fees are fixed and determinable and collection of proceeds is considered reasonably assured. With respect to construction contracts and certain engineering services contracts, revenue is recognized on the percentage-of-completion basis. In addition to this general policy, the following paragraphs describe the specific revenue recognition policies for each major category of revenue.

Construction contracts - Structural products

Revenue from construction contracts is recognized on the percentage-of-completion basis. The percentage-of-completion is determined by actual engineering drawings completed, panels, joists and trusses manufactured and installation completion estimates based on panels, joists and trusses installed. Amounts earned but unbilled are recorded as work-in-progress. Revisions in costs and earnings or loss estimates during the course of the contract are reflected during the period in which the changes in estimates become known. Losses on contracts are recognized in the period in which such losses are known.

License arrangements

The Company's license arrangements represent multiple-element arrangements which may include any combination of software, technology [generally comprising designs, specifications and documentation], equipment and services [comprising engineering and marketing support]. These multiple-element arrangements are assessed to determine whether they can be separated into more than one unit of accounting or element for the purpose of revenue recognition.

These units of accounting or elements may be separated or combined based on the specific terms of the contract and recognized when:

- [i] there is objective and reliable evidence of the fair value of the undelivered items;
- [ii] the delivered items have value to the customer on a stand-alone basis; and
- [iii] delivery or performance of the undelivered items is considered probable and substantially in the control of the Company.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The Company's revenue under its license arrangements is recognized as follows:

[a] Software and technology

Revenue is recognized under a particular arrangement when the software and technology are delivered to the customer, which is when all significant contractual obligations for these elements have been fulfilled.

[b] Equipment

Revenue from the sale of equipment is recognized when title passes to the customer and the item has value to the customer on a stand-alone basis. The fair value of the equipment is based on third party evidence of pricing.

[c] Royalty income

Income from royalties is recognized in the period earned.

[d] Services

Revenue from services is recognized as the services are provided to the customer. The fair value of the services is based on third party evidence of rates/pricing used for similar services provided by other companies in the industry.

Fees and advances received from customers that do not qualify for revenue recognition are recorded as deferred revenue. The residual method is used to allocate revenue to the delivered component of the arrangement based on the fair value of undelivered elements.

[k] Research and development expenses and investment tax credits

Research and development expenses include all costs incurred to establish technological feasibility and are charged to operations in the period in which they are incurred. The Company does not capitalize any development costs as they do not meet the criteria for capitalization. The Company records the benefit of investment tax credits from the filing of Scientific Research & Experimental Development ["SR&ED"] claims, when recovery is reasonably assured, as a reduction of the cost of the assets or expenses to which they relate. Until the Company's initial public offering, the Company was classified as a Canadian Controlled Private Corporation ["CCPC"]. By virtue of a CCPC, the Company claimed and received a partial cash refund relating to qualified research and development expenditures from the Canadian federal and provincial governments. As a consequence of ceasing to be a CCPC, the federal portion of investment tax credits earned by the Company will no longer be refundable but will still be available to the Company at a reduced rate to reduce future cash taxes otherwise payable. The Company recorded investment tax credits [net of costs] in the amount of \$770,995 for 2007 [2006 - nil].

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[l] Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet dates and non-monetary assets and liabilities are translated at exchange rates in effect on the date of the transaction. Revenues and expenses are translated into Canadian dollars at monthly average exchange rates. Resulting exchange gains and losses are included in the consolidated statements of loss, comprehensive loss and deficit.

[m] Stock-based compensation

The Company has a Stock Option Plan which is described in note 10[c]. The Company records compensation expense for stock options granted to employees. For stock options granted prior to the initial filing of the prospectus, compensation expense was measured at the fair value at the grant date using the minimum value method and for options granted after the initial filing of the prospectus, the Black-Scholes option pricing model was used. The value of the options is charged to operations over the vesting period, with a corresponding credit to contributed surplus. Any consideration paid by employees on exercise of stock options is credited to capital stock.

[n] Income taxes

The liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the reporting and tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

[o] Loss per share

Loss per share is computed by dividing net loss for the year by the weighted average number of common shares outstanding for the year. Diluted loss per common share reflects the dilution that would occur if outstanding stock options and warrants were exercised or converted into common shares using the treasury stock method. When their inclusion would have an anti-dilutive effect on loss per common share, stock options and warrants are excluded from the computation.

Genesis Worldwide Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2007 \$	2006 \$
Current bank accounts	65,254	61,386
Short-term guaranteed investment certificates	5,922,608	950,000
	<u>5,987,862</u>	<u>1,011,386</u>

5. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	2007 \$	2006 \$
Trade [net of allowance]	10,591,492	5,614,735
SR&ED investment tax credits	589,176	—
GST	90,957	164,000
Accrued interest	75,925	—
	<u>11,347,550</u>	<u>5,778,735</u>

6. INVENTORIES AND DEPOSITS ON EQUIPMENT

Inventories and deposits on equipment consist of the following:

	2007 \$	2006 \$
Raw materials	563,465	684,681
Work-in-progress	42,657	84,760
Deposits on equipment	289,564	—
	<u>895,686</u>	<u>769,441</u>

Deposits comprise deposits made on equipment which has been ordered for sale to licensees.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	2007		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Leasehold improvements	194,661	27,583	167,078
Machinery and equipment	6,095,098	2,654,443	3,440,655
Motor vehicles	142,446	69,427	73,019
Furniture and fixtures	214,690	63,090	151,600
Computer equipment	466,217	261,689	204,528
Computer software	52,501	36,875	15,626
Deposits on equipment <i>[note 13[c]]</i>	478,061	—	478,061
	7,643,674	3,113,107	4,530,567

During 2007, the Company moved its operations to new plant facilities located in Vaughan, Ontario. The cost of leasehold improvements for the old plant of \$1,803,801 and related accumulated amortization of \$1,803,801 have been written off.

	2006		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Leasehold improvements	1,951,806	1,779,452	172,354
Machinery and equipment	4,487,448	2,125,316	2,362,132
Motor vehicles	92,446	45,442	47,004
Furniture and fixtures	95,241	40,121	55,120
Computer equipment	346,852	172,746	174,106
Computer software	69,274	37,985	31,289
Deposits on equipment	28,552	—	28,552
	7,071,619	4,201,062	2,870,557

Genesis Worldwide Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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8. INTANGIBLE ASSET

Intangible asset consists of the following:

	2007		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
License	2,696,507	645,959	2,050,548
	2006		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
License	2,696,507	376,308	2,320,199

On November 10, 2004, the Company entered into a licensing agreement to acquire an exclusive, non-transferable license to use the licensor's technology for the production and sale of certain steel joist products in Canada and the United States. The license is for an unlimited term and requires the Company to pay fees and royalties. The cost of this license consists of initial cash payments and the present value of minimum royalties totaling \$2,696,507. The Company commenced amortization in November 2005 when the technology and related systems were completed and available for use.

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The Company is required to make royalty payments at the greater of 2 cents per pound of product produced with minimum future royalty payments under the agreement, as outlined in the following table:

	\$
2008	460,000
2009	600,000
2010	600,000
2011	600,000
Future minimum royalty payments	<u>2,260,000</u>
Less amount representing interest at 21%	708,801
Present value of minimum royalty payments	<u>1,551,199</u>
Less current portion	<u>173,330</u>
	<u>1,377,869</u>

9. DEBENTURES AND WARRANTS TO RELATED PARTIES

On December 4, 2006, the Company issued debentures of \$4,000,000 to existing shareholders. In January and February 2007, additional debentures of \$2,000,000 were issued. The debentures were collateralized by a general security agreement granting the debenture holders a first charge over all the assets and undertakings of the Company and pledge of shares of subsidiary companies. The debentures also provided for a specific assignment of all intellectual property; however none was entered into. The debentures earned interest which was payable monthly at 12.75% per annum and matured at the earliest of [i] 24 months from December 4, 2006; [ii] an initial public offering ["IPO"], as defined in the debentures; or [iii] immediately prior to a change of control of the Company. The debentures could be prepaid at any time after the first anniversary of December 4, 2006 in specified minimum increments with pre-payment penalties. Upon completion of the IPO, the debenture holders were entitled to an additional pre-payment amount of \$120,000 in the aggregate or 2% of the principal amount outstanding.

The debenture agreements contained financial and non-financial covenants which required the Company to maintain a ratio of current assets to current liabilities of at least 1.25:1 as defined in the debenture agreements. The agreements were amended, effective December 31, 2006, to exclude certain liabilities from the computation of the ratio of current assets to current liabilities.

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Up to December 31, 2006, the deferred financing costs of \$243,365 incurred for the debentures were being amortized over the 24-month period of the debentures on the effective yield basis. Effective January 1, 2007, as a result of the adoption of the new standards for financial instruments, the warrants liability, deferred financing costs and prepayment penalty were being accreted to the face value of the debentures over the expected period of the debentures of six months. The Company incurred interest and accretion expense for the year ended December 31, 2007 of \$1,162,233 [2006 - \$70,094]. The unamortized balance was netted against the debenture liability.

In connection with the issuance of the debentures, the Company issued special warrants to the holders of the debentures ["Holders"] that were exchangeable for nil consideration into a specified number of share purchase warrants ["Share Purchase Warrants"].

Each Share Purchase Warrant entitled the holder to purchase one common share of the Company before the earlier of the fifth anniversary of the IPO of the Company's shares [or similar liquidity event] or immediately before a change of control.

The number of Share Purchase Warrants to be issued was determined by a formula that provided the Holders with the opportunity to purchase within the next 18 months the number of common shares equal to \$1,800,000, divided by the exercise price of \$2.15385, determined in accordance with terms of the Share Purchase Warrants, for a total of 835,712 common shares.

In management's view at December 31, 2006, it was likely that the next financing would raise \$5,000,000 or more at a per share value that would be greater than the conversion price for the Series C preferred shares. Consequently, under the formula as defined in the agreement, that created an obligation for the Company to provide consideration of a fixed value payable in equity instruments to the Holders of \$600,000. This was recorded as a warrant liability, since the Holders did not have a residual interest in the Company until they received the common shares as the number of common shares to be received was variable.

The remaining balance of the proceeds of \$3,400,000, out of the initial issue of \$4,000,000, was recorded as a debenture liability in 2006. This balance was accreted over a six-month period on an effective yield basis.

During 2007, subsequent to the IPO of shares, the debenture was repaid in full [see note 10[b]].

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10. CAPITAL STOCK

[a] Capital reorganization

Pursuant to a capital reorganization agreement dated April 23, 2007 ["Capital Reorganization Agreement"], holders of Series A, B and C preferred shares agreed to reorganize the share capital of the Company by exchanging their preferred shares for common shares, with holders of Series A and B preferred shares exchanging on a 1 for 2 basis, and Series C preferred shareholders exchanging for common shares on a 1 for 2.5 basis. In addition, the Capital Reorganization Agreement terminated the Investor Rights Agreement and the Voting Agreement; and amended the Company's Articles of Incorporation to cancel the Series A, B and C preferred shares and to create a new class of preferred shares ["New Preferred Shares"] in the share capital of the Company.

As part of the capital reorganization, the number of options was doubled, such that there were issued and outstanding options exercisable for 2,201,174 common shares. The number of common share options outstanding for all periods has been retroactively restated to give effect to this transaction. The Company set, for employees, the maximum number of options outstanding at 10% of the number of shares issued.

The New Preferred Shares are issuable in series and each series shall, with respect to the payment of dividends and the distribution of assets or return of capital in the event of liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, rank on a parity with the New Preferred Shares of every other series and be entitled to a preference and priority over the common shares and over any other shares of the Company ranking junior to the New Preferred Shares. The New Preferred Shares are redeemable at the option of the Company and retractable at the option of the holders, as specified in the Articles of Incorporation of the Company. Other rights, privileges, restrictions, and conditions for each series of New Preferred Shares may be determined by the Board of Directors of the Company.

The significant terms and conditions of the Series A, B and C preferred shares previously issued were:

- Conversion - preferred shares and any declared but unpaid dividends are convertible at any time into common shares at prescribed conversion rates for each of Series A, B and C preferred shares with the Series C preferred shares containing multiplier rights to receive additional common shares as specified in the Company's Articles of Incorporation.

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- Liquidation - Series A, B and C preferred shares have liquidation preferences at prescribed amounts per share, with Series C preferred shares containing multiplier rights for additional preferences.
- Dividends - dividends on the Series A, B and C preferred shares are payable when declared by the Board of Directors. Dividends for Series C preferred shares must be first paid or declared and set apart on a proportionate basis as if they were converted into common shares, before dividends or other distributions can be made for Series A and B preferred shares and any common shares.
- Voting rights - holders of preferred shares have votes equal to the number of shares issuable upon conversion to common shares. Fractional voting rights are available on an as if converted basis rounded to the nearest whole number. The Articles of Incorporation also outline the number of Board Directors that can be appointed by each of the Series A, B and C preferred shareholders.

[b] Issuance of shares pursuant to an IPO and related transactions:

On July 3, 2007, pursuant to an IPO, the Company issued 10,000,000 common shares at an issue price of \$2.00 per share. In addition, the Company granted compensation options entitling the underwriters to acquire 500,000 common shares from the Company at the offering price of \$2.00 expiring July 2, 2008 with a grant fair value of \$253,600. The expenses incurred pursuant to the IPO of \$5,441,845 have been shown as a reduction of capital stock.

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In July 2007, the warrants liability of \$600,000 was credited to contributed surplus as a result of the exchange of the special warrants for share purchase warrants [see note 9].

	2007		2006	
	Number of shares #	Paid-up capital \$	Number of shares #	Paid-up capital \$
Preferred shares outstanding, January 1				
Series A preferred shares	4,616,430	21,974,559	4,616,430	21,974,559
Series B preferred shares	1,000,000	3,883,331	1,000,000	3,883,331
Series C preferred shares	3,899,999	16,317,030	3,899,999	16,317,030
Cancellation of preferred shares	(9,516,429)	(42,174,920)	—	—
Preferred shares outstanding, December 31	—	—	9,516,429	42,174,920
Common shares issued in exchange for preferred shares	20,982,858	42,174,920	—	—
Common shares issued on IPO	10,000,000	20,000,000	—	—
Share issue costs incurred	—	(5,441,845)	—	—
Common shares outstanding December 31	30,982,858	56,733,075	—	—

[c] Options

The Stock Option Plan is intended to attract, retain and motivate officers and salaried employees. Options are granted based on the position of the incumbent with an exercise price equal to the fair market value of the underlying common shares at the date of grant of the options. The terms or value of the award are determined by the Compensation Committee of the Company's Board of Directors at the time of grant, and options must be exercised during a period established by the Company, which currently is 10 years from the date of grant. The options' vesting schedules are based on time periods ranging from three to four years from the date of grant.

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The total number of options issuable to employees under the Stock Option Plan is 10% of the common shares issued and outstanding. There were 2,645,174 options issued under the Company's Stock Option Plan as at December 31, 2007 [2006 - 2,201,174 options issued].

The following table presents information concerning stock options granted to employees and directors and others by the Company:

	2007		2006	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Employees and directors				
Outstanding, beginning of year [i]	2,201,174	0.36	1,426,174	0.34
Granted during the year	560,000	2.39	930,000	0.41
Forfeited	(116,000)	1.19	(155,000)	0.42
Outstanding, end of year	2,645,174	0.76	2,201,174	0.36
Exercisable, end of year	1,105,674	0.32	472,882	0.24
Others				
Granted to underwriters	500,000	2.00	—	—
Granted to debenture holders	835,712	2.15	—	—
Outstanding, end of year	1,335,712	2.10	—	—
Exercisable, end of year	1,335,712	2.10	—	—
Total outstanding, end of year	3,980,886	1.20	2,201,174	0.36
Total exercisable, end of year	2,441,386	1.29	472,882	0.24

[i] after giving effect to the capital reorganization [note 10[a]] for all periods

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The following table summarizes information about the Company's outstanding stock options issued to employees and directors as at December 31, 2007:

Options outstanding			Options exercisable		
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$	#	[years]	\$	#	\$
0.20 to 0.30	581,174	5.78	0.21	540,674	0.20
0.40	750,000	8.46	0.40	187,500	0.40
0.44 - 0.45	795,000	7.85	0.44	377,500	0.44
1.70 - 2.15	225,000	9.71	1.88	—	—
2.75	294,000	9.32	2.75	—	—
	2,645,174	7.89	0.76	1,105,674	0.32

The amount of stock option compensation expense related to granted options recognized in the consolidated statements of loss, comprehensive loss and deficit and credited to contributed surplus for the year ended December 31, 2007 was \$159,581 [2006 - \$34,248]. The fair value for options granted before initial filing of the prospectus was determined using the minimum value method. The fair value for options granted after the initial filing of the prospectus was determined using the Black-Scholes option pricing model under the following assumptions:

Expected life of employees options	6 years
Expected life of underwriter options	1 year
Expected life of debenture options	4.5 years
Expected dividends	Nil
Expected volatility	62%
Risk-free interest rate	4.19% - 4.62%

The following assumptions were used for options granted prior to the initial filing of the prospectus:

	2007	2006
Risk-free interest rate	4.15%	3.9% - 4.6%
Assumed expected life of the options	10 years	10 years
Dividend yield	nil	nil

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The estimated weighted average fair value of options granted under the stock option plan to employees in 2007 was \$0.99 [2006 - \$0.29] per share based on the date of grant.

[d] Contributed surplus

The change in contributed surplus during the years is as follows:

	2007 \$	2006 \$
Balance, beginning of year	65,293	31,045
Stock-based compensation expense related to employee stock options	159,581	34,248
Share purchase warrants issued in relation to the debenture [note 9]	600,000	—
Share purchase warrants issued to the underwriters [note 10[b]]	253,600	—
Balance, end of year	1,078,474	65,293

11. PLANT COMMISSIONING AND RESTRUCTURING COSTS

During the year ended December 31, 2007, the Company consolidated its two manufacturing facilities into a new facility located in Vaughan, Ontario. Plant commissioning and restructuring costs were \$776,418, comprising severance costs of \$233,887, rental penalties on leases of \$75,087, moving costs of \$132,767 and duplicate rental and setup costs for the new facility of \$334,677. The total costs were paid as at December 31, 2007.

12. RELATED PARTIES

Revenues earned in 2007 from a shareholder of the Company in connection with license arrangements, at the exchange amount agreed upon between the parties, amounted to \$237,500 [2006 - \$1,956,202].

Another shareholder has a business relationship as a contract customer of the Company with regular credit terms. Revenues earned during 2007 at the exchange amount agreed upon between the parties is \$2,133,564 [2006 - \$1,696,052] and the amount included in accounts receivable as at December 31, 2007 is \$363,192 [2006 - \$378,494]. The Company has also entered into a commercial property lease with this shareholder on December 21, 2006 for a period of 10 years commencing January 1, 2007 for an annual minimum base rent of \$727,040. The Company is also liable for additional rent for operating costs, utilities and taxes [note 11]. [See also Note 9.]

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During 2006 and 2007, the Company borrowed \$6,000,000 by way of debentures and also issued warrants [note 9] to certain existing shareholders. Expenses related to this financing at the exchange amount agreed upon between the parties comprise interest of \$346,268 [2006 - \$36,144] and accretion expense of \$815,965 [2006 - \$33,950]. The debentures were repaid in full in July 2007.

13. COMMITMENTS AND CONTINGENCIES

[a] In the ordinary course of business, the Company has entered into various operating lease agreements for premises and equipment. Lease commitments required for the next five years and thereafter are outlined below. In addition, the Company is required to pay realty taxes and maintenance costs for the leased premises.

	Property leases	Equipment leases	Total
	\$	\$	\$
2008	986,104	87,816	1,073,920
2009	986,104	50,207	1,036,311
2010	921,684	31,804	953,488
2011	908,800	25,984	934,784
2012	908,800	24,131	932,931
Thereafter	3,635,200	2,198	3,637,398
	<u>8,346,692</u>	<u>222,140</u>	<u>8,568,832</u>

[b] In the normal course of operations, the Company is subject to lawsuits and claims. It is the opinion of management that the final determination of outstanding lawsuits and claims will not have a material adverse effect on the financial position or results of operations of the Company.

[c] During the year, the Company entered into commitments to acquire manufacturing equipment for its plant with a total purchase price of approximately \$1,144,700 and the Company has paid deposits of \$478,061 towards this equipment.

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14. INCOME TAXES

Future income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets and liabilities as at December 31 are as follows:

	2007	2006
	\$	\$
Future tax assets		
Property, plant and equipment	906,000	828,000
Share issue cost	1,215,000	—
Non-capital losses	5,861,000	6,379,000
SR&ED pool	205,000	—
Total future tax assets	8,187,000	7,207,000
Less valuation allowance	(8,187,000)	(7,207,000)
Net future tax assets	—	—

The reconciliation of income taxes at the statutory rate to income tax expense is as follows:

	2007	2006
	\$	\$
Income tax recovery at statutory rate [2007 and 2006 - 34%]	(1,532,673)	(2,536,268)
Increase (decrease) in income taxes resulting from the following		
Financing fees	(374,000)	79,300
Tax effect of expenses that are not deductible for tax purposes	65,280	—
Benefit of losses not recognized	1,841,393	2,456,968
	—	—

At December 31, 2007, the Company has accumulated Canadian non-capital losses of approximately \$20,934,000 available for carryforward to be applied against taxable income in future years. Of these non-capital losses, \$680,000 will expire in 2010, \$2,773,000 in 2014, \$4,085,000 in 2015, \$6,650,000 in 2026 and \$6,746,000 in 2027.

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15. FINANCIAL INSTRUMENTS

Fair values

The estimated fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturities of these financial instruments. The fair value of long-term financial instruments approximates their carrying value as interest rates approximate market rates.

Currency risk

A significant number of the Company's transactions are recorded in U.S. dollars and, as such, the Company is exposed to price risk due to fluctuations in foreign exchange rates. Cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities include balances in this currency at year end.

Interest rate risk

The Company is exposed to the risk of changing interest rates for cash and cash equivalents held, impacting interest income.

Credit risk and customer concentration

Concentration of credit risk arises when a group of customers has similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions. For the Company, significant concentrations of credit risk are related to the construction industry.

At December 31, 2007, three customers [2006 - two] individually represented more than 10% of the total accounts receivable balances, and collectively accounted for 55% [2006 - 41%] of the total accounts receivable balance. At December 31, 2007, three customers [2006 - one] individually represented more than 10% of revenues, and collectively accounted for 42% [2006 - 21%] of the total revenues in 2007.

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16. SEGMENTED INFORMATION

The Company's business activities are conducted through two operating segments, in addition to centralized corporate services. All inter-segment transactions are measured at the exchange amounts.

Licensing

The licensing segment develops and licenses light steel structural building technology solutions for residential and commercial markets. The Company develops software applications, creates light steel products and provides equipment specifications to market, sell, engineer, fabricate and install light steel structures through its own locations as well as through licensees. Operating activities consist of ongoing sale of licenses and the development and application of technologies.

Structural products

The structural products segment consists of a customized panel and truss manufacturing facility and a light steel joist facility, both located in Vaughan, Ontario. Both facilities produce engineered components used in the construction of light steel residential and commercial buildings.

Year ended December 31, 2007	Licensing \$	Structural products \$	Total operations \$	Corporate \$	Consolidated \$
Revenues	8,523,405	15,920,094	24,443,499	—	24,443,499
Direct cost of revenues	4,048,674	12,118,822	16,167,496	—	16,167,496
Contribution margin	4,474,731	3,801,272	8,276,003	—	8,276,003
Expenses before the undernoted	(2,409,880)	(5,708,647)	(8,118,527)	(2,485,876)	(10,604,403)
Income (loss) before the following	2,064,851	(1,907,375)	157,476	(2,485,876)	(2,328,400)
Amortization	(71,467)	(902,046)	(973,513)	(11,984)	(985,497)
Foreign exchange gain (loss)	27,842	12,335	40,177	(21,060)	19,117
Interest and minimum royalty accretion	19,294	(258,418)	(239,124)	(973,958)	(1,213,082)
Net income (loss) for the year	2,040,520	(3,055,504)	(1,014,984)	(3,492,878)	(4,507,862)

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As at December 31, 2007	Licensing \$	Structural products \$	Total operations \$	Corporate \$	Consolidated \$
Total assets	5,139,492	14,668,243	19,807,735	5,827,463	25,635,198
Capital expenditures	69,781	2,251,528	2,321,309	54,547	2,375,856
Property, plant and equipment	266,590	4,210,534	4,477,124	53,443	4,530,567
Intangible asset	—	2,050,548	2,050,548	—	2,050,548

Year ended December 31, 2006	Licensing \$	Structural products \$	Total operations \$	Corporate \$	Consolidated \$
Revenues	3,506,945	16,705,823	20,212,768	—	20,212,768
Direct cost of revenues	1,731,301	16,153,807	17,885,108	—	17,885,108
Contribution margin	1,775,644	552,016	2,327,660	—	2,327,660
Expenses before the undernoted	(1,852,024)	(5,172,718)	(7,024,742)	(1,500,000)	(8,524,742)
Loss before the following	(76,380)	(4,620,702)	(4,697,082)	(1,500,000)	(6,197,082)
Amortization	(80,228)	(803,678)	(883,906)	(1,941)	(885,847)
Foreign exchange gain (loss)	(671)	44,710	44,039	20,521	64,560
Interest and minimum royalty accretion	—	(296,965)	(296,965)	(144,278)	(441,243)
Net loss for the year	(157,279)	(5,676,635)	(5,833,914)	(1,625,698)	(7,459,612)

As at December 31, 2006	Licensing \$	Structural products \$	Total operations \$	Corporate \$	Consolidated \$
Total assets	4,459,802	7,680,276	12,140,078	1,080,592	13,220,670
Capital expenditures	54,098	987,196	1,041,294	40,563	1,081,857
Property, plant and equipment	268,874	2,562,251	2,831,125	39,432	2,870,557
Intangible asset	—	2,320,199	2,320,199	—	2,320,199

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Geographical distribution of revenues is as follows:

Year ended December 31	Canada	U.S.	International	Consolidated
	\$	\$	\$	\$
2007	16,045,394	4,060,417	4,337,688	24,443,499
2006	15,780,863	2,886,375	1,545,530	20,212,768

17. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2007 consolidated financial statements.