

Consolidated Financial Statements

**Genesis Worldwide Inc.**

December 31, 2008

## AUDITORS' REPORT

To the Shareholders of  
**Genesis Worldwide Inc.**

We have audited the consolidated balance sheets of **Genesis Worldwide Inc.** as at December 31, 2008 and 2007 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, 2008 and 2007 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 27, 2009.

*Ernst + Young LLP*

Chartered Accountants  
Licensed Public Accountants

**Genesis Worldwide Inc.**

**CONSOLIDATED BALANCE SHEETS**

As at December 31

	2008	2007
	\$	\$
<b>ASSETS</b> <i>[note 9]</i>		
<b>Current</b>		
Cash and cash equivalents <i>[note 4]</i>	167,064	5,987,862
Accounts receivable <i>[notes 5, 14 and 17]</i>	7,780,771	10,455,380
Inventories and deposits on equipment <i>[note 6]</i>	1,626,187	895,686
Prepaid expenses	310,964	342,515
<b>Total current assets</b>	<b>9,884,986</b>	17,681,443
Restricted cash <i>[note 9]</i>	500,000	—
Long-term accounts receivable	—	287,500
Property, plant and equipment <i>[note 7]</i>	4,848,059	4,530,567
Intangible assets <i>[note 8]</i>	2,105,862	2,243,518
	<b>17,338,907</b>	24,743,028
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	6,916,928	7,566,970
Term loan - current portion <i>[note 9]</i>	570,943	—
Deferred revenue - current portion	2,779,266	3,567,478
Minimum royalty payment obligations <i>[note 8]</i>	376,792	173,330
<b>Total current liabilities</b>	<b>10,643,929</b>	11,307,778
<b>Long-term</b>		
Deferred revenue	—	287,500
Term loan <i>[note 9]</i>	983,253	—
Minimum royalty payment obligations <i>[note 8]</i>	1,002,923	1,377,869
<b>Total long-term liabilities</b>	<b>1,986,176</b>	1,665,369
Commitments and contingencies <i>[notes 8 and 15]</i>		
<b>Shareholders' equity</b>		
Capital stock <i>[note 11]</i>	56,733,075	56,733,075
Contributed surplus <i>[note 11]</i>	1,246,358	1,078,474
Deficit	(53,270,631)	(46,041,668)
<b>Total shareholders' equity</b>	<b>4,708,802</b>	11,769,881
	<b>17,338,907</b>	24,743,028

*See accompanying notes*

On behalf of the Board:

(Signed) Vince Mifsud  
Director

(Signed) Ralph Steedman  
Director

**Genesis Worldwide Inc.**

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

Year ended December 31

	2008	2007
	\$	\$
<b>Revenues</b> [notes 3[j], 14 and 17]		
Licensing	8,852,474	8,523,405
Structural products	12,409,076	15,920,094
<b>Total revenues</b>	<b>21,261,550</b>	<b>24,443,499</b>
<b>Direct cost of revenues</b>		
Licensing	3,980,339	4,048,674
Structural products	10,919,282	12,118,822
<b>Total direct cost of revenues</b>	<b>14,899,621</b>	<b>16,167,496</b>
<b>Expenses</b>		
Research and development [note 3[l]]	1,293,589	1,077,313
Scientific research & experimental development tax credits	(100,906)	(770,995)
Selling and marketing	2,521,819	1,924,268
Engineering and project management	1,744,973	1,740,989
General and administrative	4,559,130	4,338,800
Occupancy	1,635,758	1,517,610
Corporate reorganization costs [note 13]	464,448	—
Plant commissioning and restructuring costs [note 12]	—	776,418
	<b>12,118,811</b>	<b>10,604,403</b>
Loss before other expenses	<b>(5,756,882)</b>	<b>(2,328,400)</b>
Amortization of property, plant and equipment [note 7]	877,326	715,846
Amortization of intangible asset [note 8]	269,651	269,651
Foreign exchange gain	(60,460)	(19,117)
Bank interest expense (income), net	24,206	(248,048)
Minimum royalty accretion	288,515	298,897
Term loan and debenture interest expense [notes 9 and 10]	72,843	1,162,233
	<b>1,472,081</b>	<b>2,179,462</b>
<b>Net loss and comprehensive loss for the year</b>	<b>(7,228,963)</b>	<b>(4,507,862)</b>
Deficit, beginning of year	<b>(46,041,668)</b>	<b>(41,533,806)</b>
<b>Deficit, end of year</b>	<b>(53,270,631)</b>	<b>(46,041,668)</b>
<b>Loss per share</b>		
Basic and diluted	<b>\$ (0.23)</b>	<b>\$ (0.17)</b>
Weighted average number of shares outstanding [note 3[p]]	<b>30,982,858</b>	<b>25,969,159</b>

See accompanying notes

**Genesis Worldwide Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Year ended December 31

	2008	2007
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(7,228,963)	(4,507,862)
Adjustments for non-cash items		
Amortization of property, plant and equipment and intangible asset	1,146,977	985,497
Stock-based compensation expense	167,884	159,581
Unrealized foreign exchange loss	(15,231)	—
Debenture interest expense accretion <i>[note 10]</i>	—	815,965
Minimum royalty accretion	288,515	298,897
	<u>(5,640,818)</u>	<u>(2,247,922)</u>
Changes in non-cash working capital balances related to operations		
Accounts receivable, net	2,674,609	(5,568,815)
Inventories and deposits on equipment	(730,501)	(126,245)
Prepaid expenses	31,551	127,837
Accounts payable and accrued liabilities	(650,040)	1,839,767
Deferred revenue	(788,212)	2,317,915
<b>Cash used in operating activities</b>	<u>(5,103,411)</u>	<u>(3,657,463)</u>
<b>FINANCING ACTIVITIES</b>		
Loan proceeds	1,800,000	—
Repayment on term loan	(245,804)	—
Restricted cash	(500,000)	—
Debenture repayment <i>[note 10]</i>	—	(4,120,000)
Capital stock issued, net of issue costs paid <i>[note 11]</i>	—	15,642,765
<b>Cash provided by financing activities</b>	<u>1,054,196</u>	<u>11,522,765</u>
<b>INVESTING ACTIVITIES</b>		
Additions to property, plant and equipment	(1,329,177)	(2,375,856)
Disposals to property, plant and equipment	149,590	—
Deferred patent costs <i>[note 3[h]]</i>	(131,996)	(192,970)
Minimum royalties paid <i>[note 8]</i>	(460,000)	(320,000)
<b>Cash used in investing activities</b>	<u>(1,771,583)</u>	<u>(2,888,826)</u>
<b>Net increase (decrease) in cash and cash equivalents during the year</b>	<b>(5,820,798)</b>	4,976,476
Cash and cash equivalents, beginning of year	5,987,862	1,011,386
<b>Cash and cash equivalents, end of year</b>	<u>167,064</u>	<u>5,987,862</u>
<b>Supplemental cash flow information</b>		
Interest paid	85,630	346,268
Initial public offering costs not yet paid	—	831,010

*See accompanying notes*

## Genesis Worldwide Inc.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## 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 2008

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 3862 "Financial Instruments - Disclosure", Section 3863 "Financial Instruments - Presentation" and Section 1535 "Capital Disclosures". The adoption of the new standards resulted in additional disclosures with regard to financial instruments, capital and inventory. The adoption of the new standards did not have a material impact on the Company's consolidated financial statements.

#### **Inventories**

The CICA issued a new accounting standard, Section 3031 "Inventories", which requires inventory to be measured at the lower of cost and net realizable value. This standard provides guidance on the types of costs that can be capitalized and requires reversal of previous inventory write-downs if economic circumstances have changed to support the higher inventory values. The Company has adopted this standard beginning January 1, 2008 and the adoption of the new requirements of this standard had no impact on the Company's consolidated financial statements.

#### **General Standards of Financial Statement Presentation**

The CICA amended Section 1400 "General Standards of Financial Statement Presentation" to include requirements to assess and disclose an entity's ability to continue as a going concern. These amendments require management to disclose any uncertainties that might cast significant doubt upon an entity's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, management must take into account all available information about the future, which is at least but not limited to twelve months from the

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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balance sheet date. The Company has adopted the amendments to this standard beginning January 1, 2008 and has concluded that it will be able to continue as a going concern with no additional disclosures required based on the realization of current assumptions in this challenging economic environment.

### **[b] Future changes in accounting standards**

#### **Goodwill, Intangible Assets and Financial Statement Concepts**

The CICA has issued a new accounting standard, Section 3064 "Goodwill and Intangible Assets", which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset. Section 1000 "Financial Statement Concepts" was also amended to provide consistency with this new standard. The new and amended standards are effective for the Company beginning January 1, 2009. The adoption of the new standards is not expected to have a material effect on the Company's consolidated financial statements.

#### **International Financial Reporting Standards**

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ["IFRS"] will be required for fiscal years beginning on or after January 1, 2011 for publicly accountable profit-oriented enterprises. IFRS will replace current Canadian GAAP. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company is currently evaluating the impact of adopting IFRS on its consolidated financial statements.

### **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.

#### **[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

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related to the allowance for doubtful accounts, property, plant and equipment amortization, cash flow projections with respect to impairment of long-lived assets and assessment of going concern assumption, 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 inventories.

### **[f] Transaction costs**

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

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### **[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 assets**

The intangible assets consist of a technology license and deferred patent costs. The technology license is being amortized on a straight-line basis over its estimated useful life which is 10 years. The patent costs have been incurred in filing patents for which the patents are pending. If patents are abandoned the associated costs will be expensed at that time and if patents are granted amortization will commence.

### **[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.

### **[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. Amounts are billable as defined by individual contracts. Revenue in excess of contract billings is recorded as unbilled revenue. Fees and advances

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received from customers that do not qualify for revenue recognition are recorded as deferred revenue.

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;
- [iii] delivery or performance of the undelivered items is considered probable and substantially in the control of the Company; and
- [iv] fees related to delivered elements are not subject to refund, forfeiture or other concession if undelivered elements are not delivered.

If these criteria are not met, the arrangement is accounted for as one unit of accounting, which would result in revenue being deferred until the earlier of when such criteria is met or when the last undelivered element is delivered.

## Genesis Worldwide Inc.

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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 established based on the prices when the equipment is sold separately.

[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 rates/pricing used when the services are sold separately.

The residual method is used to allocate revenue to the delivered component of the arrangement based on the fair value of undelivered elements.

### [k] Financial instruments

All financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at their fair value, except for loans and receivables and other financial liabilities, which are measured at amortized cost. The Company has designated cash and cash equivalents and restricted cash as held-for-trading. Short-term investments are designated as available-for-sale. Accounts receivable are classified as loans and receivables and approximate fair value. Accounts payable and accrued liabilities, term loan, and minimum royalty payment obligations are accounted for as other liabilities at amortized cost.

If a financial asset is classified as available-for-sale, the cumulative unrealized gain or loss is recognized in accumulated other comprehensive income (loss) and recognized in income on sale or other than temporary impairment.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **[l] 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 being 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 is no longer refundable but is available to the Company at a reduced rate to reduce future cash taxes otherwise payable for a carryforward period of 20 years from the year they are earned. The Company recorded investment tax credits [net of costs] in the amount of \$100,906 for 2008 [2007 - \$770,995].

### **[m] Foreign currency translation**

#### *Translation of transactions*

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.

#### *Translation of consolidated financial statements*

The Company's foreign subsidiaries are considered to be integrated operations for accounting purposes. The Company uses the temporal method to translate the foreign currency accounts for its integrated operations. Under the temporal method, monetary items denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet dates and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates of exchange in effect at the time of the transactions, except to the extent they relate to items translated at historical rates, in which case, historical rates are applied. Foreign exchange gains and losses from the translation of the financial statements of integrated foreign operations are included in the consolidated statement of loss as exchange gains and losses.

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**[n] Stock-based compensation**

The Company has a Stock Option Plan which is described in note 11[c]. The Company records compensation expense for stock options granted to employees and directors. 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 together with any previously recognized compensation expense in contributed surplus.

**[o] 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.

In assessing the valuation of future tax assets, management considers whether a valuation allowance is required for any of the Company's future tax assets, based on whether it is more likely than not that the future tax assets will be realized. Management considers projected future taxable income, uncertainties related to the industry in which the Company operates and tax planning strategies in making this assessment.

**[p] 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. For 2008 and 2007, all stock options are anti-dilutive; therefore, diluted loss per common share is equal to basic loss per common share.

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**4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

	2008	2007
	\$	\$
Cash on hand	167,064	65,254
Short-term guaranteed investment certificates	—	5,922,608
	<b>167,064</b>	<b>5,987,862</b>

**5. ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following:

	2008	2007
	\$	\$
Trade receivables [net of allowance]	4,713,902	6,735,632
Holdback receivables	1,480,742	1,697,256
Unbilled revenue	1,505,803	1,266,434
Scientific research & experimental development tax credits	26,447	589,176
Goods and Services tax	53,877	90,957
Accrued interest receivable	—	75,925
	<b>7,780,771</b>	<b>10,455,380</b>
<i>Aging</i>		
Current	695,029	2,846,823
31-60 days	1,478,752	1,918,400
61-90 days	715,688	233,488
Over 90 days	2,081,402	2,730,820
Allowance for doubtful accounts	(256,969)	(993,899)
	<b>4,713,902</b>	<b>6,735,632</b>

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#### 6. INVENTORIES AND DEPOSITS ON EQUIPMENT

Inventories and deposits on equipment consist of the following:

	2008	2007
	\$	\$
Raw materials	694,176	563,465
Work-in-progress	—	42,657
Inventory held for resale	443,652	—
Deposits on equipment	488,359	289,564
	<u>1,626,187</u>	<u>895,686</u>

Deposits on equipment comprise of deposits made on equipment which has been ordered for sale to licensees. Inventory held for resale comprises of equipment items that have been purchased by the Company for future resale to licensees.

#### 7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	2008		
	Cost	Accumulated	Net book
	\$	amortization	value
		\$	\$
Leasehold improvements	252,034	53,643	198,391
Machinery and equipment	7,591,517	3,328,850	4,262,667
Motor vehicles	146,196	94,379	51,817
Furniture and fixtures	241,295	95,288	146,007
Computer equipment	520,294	355,330	164,964
Computer software	71,571	47,358	24,213
	<u>8,822,907</u>	<u>3,974,848</u>	<u>4,848,059</u>

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	<b>2007</b>		
	<b>Cost</b> \$	<b>Accumulated amortization</b> \$	<b>Net book value</b> \$
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 15[c]]</i>	478,061	—	478,061
	<b>7,643,674</b>	<b>3,113,107</b>	<b>4,530,567</b>

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.

**8. INTANGIBLE ASSETS**

Intangible assets consist of the following:

	<b>2008</b>		
	<b>Cost</b> \$	<b>Accumulated amortization</b> \$	<b>Net book value</b> \$
License	<b>2,696,507</b>	<b>915,610</b>	<b>1,780,897</b>
Patents	<b>324,965</b>	—	<b>324,965</b>
	<b>3,021,472</b>	<b>915,610</b>	<b>2,105,862</b>

	<b>2007</b>		
	<b>Cost</b> \$	<b>Accumulated amortization</b> \$	<b>Net book value</b> \$
License	2,696,507	645,959	2,050,548
Patents	192,970	—	192,970
	<b>2,889,477</b>	<b>645,959</b>	<b>2,243,518</b>

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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 totalling \$2,696,507. The Company commenced amortization in November 2005 when the technology and related systems were completed and available for use.

The Company is required to make royalty payments at the greater of \$0.02 per pound of product produced with future minimum royalty payments under the agreement, as outlined in the following table:

	\$
2009	600,000
2010	600,000
2011	600,000
Future minimum royalty payments	1,800,000
Less amount representing interest at 21%	420,285
Present value of minimum royalty payments	1,379,715
Less current portion	376,792
	<u>1,002,923</u>

#### 9. TERM LOAN

In June 2008, a subsidiary of the Company, KML Engineered Homes Ltd., completed a three-year secured non-revolving term loan with a lender for \$1,800,000 at a fixed interest rate of 8.17% repayable in equal monthly installments of principal plus interest. The lender required the Company to provide a \$500,000 irrevocable letter of credit which is secured by a restricted cash deposit of \$500,000 at a Canadian chartered bank. The loan was formalized and fully drawn down in July 2008. The Company has provided a general security agreement providing a fixed and floating charge on all assets of the subsidiary. The loan is guaranteed by the Company. The Company must meet a current ratio test of 1.1 to 1 as defined in the agreement. As at December 31, 2008, the Company was in violation of this covenant and it obtained a tolerance letter from the lender until March 31, 2009.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The following table is a summary of the principal repayments to maturity:

	\$
2009	570,943
2010	619,353
2011	385,428
Total principal repayments	1,575,724
Less deferred costs	(21,528)
<b>Total debt on balance sheet</b>	<b>1,554,196</b>

#### 10. 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 prepayment penalties. Upon completion of the IPO, the debenture holders were entitled to an additional prepayment 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.

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 no interest and accretion expense for the year ended December 31, 2008 [2007 - \$1,162,233]. The unamortized balance was netted against the debenture liability.

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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 the 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, the debenture was repaid in full [note 11[b]].

## 11. 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.

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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 has 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.
- 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.

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**[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 which expired on 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.

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 [note 10].

	2008		2007	
	Number of shares #	Paid-up capital \$	Number of shares #	Paid-up capital \$
<b>Preferred shares outstanding, January 1</b>				
Series A preferred shares	—	—	4,616,430	21,974,559
Series B preferred shares	—	—	1,000,000	3,883,331
Series C preferred shares	—	—	3,899,999	16,317,030
Cancellation of preferred shares	—	—	(9,516,429)	(42,174,920)
<b>Preferred shares outstanding, December 31</b>	—	—	—	—
Common shares issued in exchange for preferred shares	<b>20,982,858</b>	<b>42,174,920</b>	20,982,858	42,174,920
Common shares issued on IPO	<b>10,000,000</b>	<b>20,000,000</b>	10,000,000	20,000,000
Share issue costs incurred	—	<b>(5,441,845)</b>	—	(5,441,845)
<b>Common shares outstanding, December 31</b>	<b>30,982,858</b>	<b>56,733,075</b>	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

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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.

The total number of options issuable to employees under the Stock Option Plan is 10% of the common shares issued and outstanding. There were 2,219,392 options issued under the Company's Stock Option Plan as at December 31, 2008 [2007 - 2,645,174 options issued].

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

	<b>2008</b>		<b>2007</b>	
	<b>Number of options</b>	<b>Weighted average exercise price</b>	<b>Number of options</b>	<b>Weighted average exercise price</b>
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
<b>Employees and directors</b>				
<b>Outstanding, beginning of year [i]</b>	<b>2,645,174</b>	<b>0.76</b>	2,201,174	0.36
Granted	<b>320,000</b>	<b>1.04</b>	560,000	2.39
Forfeited	<b>(745,782)</b>	<b>0.86</b>	(116,000)	1.19
<b>Outstanding, end of year</b>	<b>2,219,392</b>	<b>0.76</b>	2,645,174	0.76
<b>Exercisable, end of year</b>	<b>1,270,892</b>	<b>0.49</b>	1,105,674	0.32
<b>Others</b>				
Granted to underwriters	—	—	500,000	2.00
Granted to debenture holders	<b>835,712</b>	<b>2.15</b>	835,712	2.15
<b>Outstanding, end of year</b>	<b>835,712</b>	<b>2.15</b>	1,335,712	2.10
<b>Exercisable, end of year</b>	<b>835,712</b>	<b>2.15</b>	1,335,712	2.10
<b>Total outstanding, end of year</b>	<b>3,055,104</b>	<b>1.14</b>	3,980,886	1.20
<b>Total exercisable, end of year</b>	<b>2,106,604</b>	<b>1.15</b>	2,441,386	1.29

[i] after giving effect to the capital reorganization [note 11[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, 2008:

Range of exercise prices \$	Options outstanding			Options exercisable	
	Number outstanding #	Weighted average remaining contractual life [years]	Weighted average exercise price \$	Number exercisable #	Weighted average exercise price \$
0.20 to 0.30	561,174	4.72	0.21	545,924	0.20
0.40	281,718	7.47	0.40	94,218	0.40
0.44 to 0.45	735,000	6.67	0.44	528,750	0.44
0.85 to 1.30	310,000	9.61	1.04	—	—
1.70 to 2.15	115,000	8.69	1.95	47,500	1.86
2.75	216,500	8.32	2.75	54,500	2.75
	<b>2,219,392</b>	<b>6.96</b>	<b>0.76</b>	<b>1,270,892</b>	<b>0.49</b>

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, 2008 was \$167,884 [2007 - \$159,581]. The fair value for options granted before initial filing of the IPO prospectus was determined using the minimum value method. The fair value for options granted after the initial filing of the IPO prospectus was determined using the Black-Scholes option pricing model under the following assumptions:

Expected life of employee options	6 years
Expected life of debenture options	4.5 years
Expected dividends	Nil
Expected volatility	62%
Risk-free interest rate	3.30%-4.62%

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

	2008 \$	2007 \$
Risk-free interest rate	3.30%	4.15%
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 2008 was \$1.04 [2007 - \$0.99] per share based on the date of grant.

#### [d] Contributed surplus

The change in contributed surplus during the years ended December 31 is as follows:

	2008	2007
	\$	\$
<b>Balance, beginning of year</b>	<b>1,078,474</b>	65,293
Stock-based compensation expense related to employee stock options	<b>167,884</b>	159,581
Share Purchase Warrants issued in relation to the debenture [note 10]	—	600,000
Share Purchase Warrants issued to the underwriters [note 11[b]]	—	253,600
<b>Balance, end of year</b>	<b>1,246,358</b>	1,078,474

#### 12. 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.

#### 13. CORPORATE REORGANIZATION COSTS

In August 2008, the Company made some senior organizational changes which resulted in the recording of termination and severance costs of \$464,448 [2007 - nil]. These costs will be completely paid out to these individuals by July 31, 2009. The balance of unpaid costs as at December 31, 2008 is \$261,067 and is included in accounts payable and accrued liabilities.

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#### 14. RELATED PARTIES

Revenues earned in 2008 from a shareholder of the Company in connection with license arrangements, at the exchange amount agreed upon between the parties, amounted to nil [2007 - \$237,500]. During 2008, the Company purchased supplies from this shareholder for \$69,632 at market rates.

Another shareholder has a business relationship as a contract customer of the Company with regular credit terms. Revenues earned during 2008 at the exchange amount agreed upon between the parties is \$331,687 [2007 - \$2,133,564] and the amount included in accounts receivable as at December 31, 2008 is \$241,724 [2007 - \$363,192]. 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 [notes 10 and 15].

During 2007, the Company borrowed \$6,000,000 by way of debentures and also issued warrants [note 10] to certain existing shareholders. Expenses related to this financing at the exchange amount agreed upon between the parties comprise interest of \$346,268 and accretion expense of \$815,965. The debentures were repaid in full in July 2007.

#### 15. 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.

	<b>Property leases</b>	<b>Equipment leases</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
2009	1,092,758	41,948	1,134,706
2010	1,012,264	42,592	1,054,856
2011	1,011,130	42,474	1,053,604
2012	1,011,130	39,842	1,050,972
2013	1,011,130	17,791	1,028,921
Thereafter	3,033,390	—	3,033,390
	<b>8,171,802</b>	<b>184,647</b>	<b>8,356,449</b>

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- [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 2007, 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 had paid deposits of \$478,061 towards this equipment. This contract was completed during 2008.
- [d] During 2008, the Company entered into commitments to acquire manufacturing equipment for one of its licensees. The total purchase price was approximately \$1,876,271 and the Company had paid deposits of \$488,359 towards this equipment. The remaining commitment is \$1,054,526.

#### 16. 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:

	2008	2007
	\$	\$
<b>Future tax assets</b>		
Property, plant and equipment	1,680,000	906,000
Share issue costs	914,230	1,215,000
Non-capital losses	7,951,000	5,861,000
Scientific research & experimental development pool	142,000	205,000
Total future tax assets	10,687,230	8,187,000
Less valuation allowance	(10,687,230)	(8,187,000)
	—	—

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

	2008	2007
	\$	\$
Income tax recovery at statutory rate of 32% [2007 - 34%]	(2,313,268)	(1,532,673)
Increase (decrease) in income taxes resulting from the following		
Financing fees	(348,278)	(374,000)
Tax effect of expenses that are not deductible for tax purposes	79,323	65,280
Benefit of losses not recognized	2,582,223	1,841,393
	<u>—</u>	<u>—</u>

At December 31, 2008, the Company has accumulated Canadian non-capital losses of approximately \$28,399,000 available for carryforward to be applied against taxable income in future years. Of these non-capital losses, \$680,000 will expire in 2010, \$2,155,000 in 2014, \$5,695,000 in 2015, \$6,593,000 in 2026, \$6,276,000 in 2027 and \$7,000,000 in 2028.

## 17. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

### 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. The Company's objective in managing its foreign currency risk is to minimize its exposure to these fluctuations by managing to the extent practical its U.S. dollar collections to pay U.S. dollar obligations.

## **Genesis Worldwide Inc.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. Substantially all of the Company's financial liabilities will mature within one year. The Company also has significant contractual obligations in the form of operating leases.

Management believes the Company's existing working capital resources and signed customer contracts will be adequate to support all of its financial liabilities and contractual commitments.

### **Interest rate risk**

Interest rate risk arises because of the fluctuation in interest rates. The Company is exposed to the risk of changing interest rates for cash and cash equivalents held. If interest rates were to shift significantly there would be minimal impact on the Company's results.

### **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, 2008, three customers [2007 - three] individually represented more than 10% of the total accounts receivable balances and collectively accounted for 56% [2007 - 55%] of the total accounts receivable balance. At December 31, 2008, two customers [2007 - three] individually represented more than 10% of total revenues, and collectively accounted for 29% [2007 - 42%] of the total revenues in 2008.

### **Management of capital**

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth strategy and fund research and development, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company's capital is comprised of share capital and a non-revolving term loan to assist in financing working capital. The Company's primary uses of capital are to finance its operations and capital expenditures. The Company currently funds these requirements from cash flows from operations and cash raised through past share issuances and debt financing. The Company's objective when managing capital are to ensure that the Company will continue to have enough liquidity so it can provide services to

## Genesis Worldwide Inc.

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its customers and returns to its shareholders. There were no changes in the Company's approach to capital management during the year.

## 18. 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.

<b>Year ended December 31, 2008</b>	<b>Licensing</b>	<b>Structural products</b>	<b>Total operations</b>	<b>Corporate</b>	<b>Consolidated</b>
	\$	\$	\$	\$	\$
Revenues	8,852,474	12,409,076	21,261,550	—	21,261,550
Direct cost of revenues	3,980,339	10,919,282	14,899,621	—	14,899,621
Contribution margin	4,872,135	1,489,794	6,361,929	—	6,361,929
Expenses before the undernoted	4,792,666	4,286,092	9,078,758	3,040,053	12,118,811
Income (loss) before the following	79,469	(2,796,298)	(2,716,829)	(3,040,053)	(5,756,882)
Amortization	(351,237)	(778,398)	(1,129,635)	(17,342)	(1,146,977)
Foreign exchange gain (loss)	74,678	(20,980)	53,698	6,762	60,460
Interest and minimum royalty accretion	(315,107)	(150,767)	(465,874)	80,310	(385,564)
<b>Net loss for the year</b>	<b>(512,197)</b>	<b>(3,746,443)</b>	<b>(4,258,640)</b>	<b>(2,970,323)</b>	<b>(7,228,963)</b>

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<b>As at December 31, 2008</b>	<b>Licensing</b>	<b>Structural products</b>	<b>Total operations</b>	<b>Corporate</b>	<b>Consolidated</b>
	\$	\$	\$	\$	\$
Total assets	5,084,235	11,979,334	17,063,569	275,338	17,338,907
Capital expenditures	75,830	1,248,939	1,324,769	4,408	1,329,177
Property, plant and equipment	258,662	4,548,888	4,807,550	40,509	4,848,059
Intangible assets	2,105,862	—	2,105,862	—	2,105,862

<b>Year ended December 31, 2007</b>	<b>Licensing</b>	<b>Structural products</b>	<b>Total operations</b>	<b>Corporate</b>	<b>Consolidated</b>
	\$	\$	\$	\$	\$
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)
<b>Net income (loss) for the year</b>	<b>2,040,520</b>	<b>(3,055,504)</b>	<b>(1,014,984)</b>	<b>(3,492,878)</b>	<b>(4,507,862)</b>

<b>As at December 31, 2007</b>	<b>Licensing</b>	<b>Structural products</b>	<b>Total operations</b>	<b>Corporate</b>	<b>Consolidated</b>
	\$	\$	\$	\$	\$
Total assets	4,247,322	14,668,243	18,915,565	5,827,463	24,743,028
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	2,243,518	—	2,243,518	—	2,243,518

Geographical distribution of revenues is as follows:

<b>Year ended December 31</b>	<b>Canada</b>	<b>U.S.</b>	<b>International</b>	<b>Consolidated</b>
	\$	\$	\$	\$
2008	12,615,654	1,302,994	7,342,902	21,261,550
2007	16,045,394	4,060,417	4,337,688	24,443,499

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**19. SUBSEQUENT EVENT**

On February 20, 2009 the Company issued a secured convertible debenture [the "Debenture"] for \$1,534,742 which bears an interest rate of 10% per annum. The Debenture matures on August 20, 2010 and is convertible at the option of the holder into common shares of Company at a conversion price of \$0.242. The Debenture is secured by a general security interest in all of the assets of the Company which ranks subsequent to the security interest previously granted by the Company to its secured lender.

**20. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS**

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2008 consolidated financial statements.