



Interim Consolidated Financial Statements

Genesis Worldwide Inc.

June 30, 2010

[unaudited]

These interim consolidated financial statements have not been reviewed by the Company's auditors.

Genesis Worldwide Inc.

CONSOLIDATED BALANCE SHEET

See Note 1 - Basis of Presentation and Going Concern Uncertainty
(unaudited)

As at June 30

	As at June 30 2010	As at December 31 2009
	\$	\$
ASSETS		
Current		
Cash	7,542	72,247
Cash held in trust	—	100,000
Restricted cash [note 8]	500,000	500,000
Accounts receivable [notes 3 and 10]	1,479,836	2,818,204
Inventory [note 4]	242,499	346,219
Prepaid expenses	203,981	255,719
Total current assets	2,433,858	4,092,389
Mortgage receivable [note 3]	432,908	432,908
Property, plant and equipment	1,899,351	2,232,604
Investment [note 5]	—	—
Intangible assets [note 6]	17,582	1,015,101
	4,783,699	7,773,002
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	7,903,334	6,505,840
Term loan - current portion [note 8]	1,018,560	991,587
Deferred revenue	587,333	847,964
Minimum royalty payment obligations [note 6]	266,190	682,548
Total current liabilities	9,775,417	9,027,939
Long-term		
Minimum royalty payment obligations [note 6]	—	578,058
Total long-term liabilities	—	578,058
Commitments and contingencies [note 1]		
Shareholders' equity		
Capital stock [note 9]	61,690,108	61,114,911
Contributed surplus [note 9]	1,821,639	1,842,492
Deficit	(68,503,465)	(64,790,398)
Total shareholders' equity	(4,991,718)	(1,832,995)
	4,783,699	7,773,002

See accompanying notes

On behalf of the Board:



Alan MacQuoid
Director



Brad Baker
Director

Genesis Worldwide Inc.

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

See Note 1 - Basis of Presentation and Going Concern Uncertainty
(unaudited)

	Three months ended		Six months ended	
	June 30 2010	June 30 2009	June 30 2010	June 30 2009
	\$	\$	\$	\$
Revenues [note 10]				
Licensing	(17,028)	805,636	174,069	3,031,169
Structural products	2,084,843	2,252,968	2,858,831	4,906,072
Total revenues	2,067,815	3,058,604	3,032,900	7,937,241
Direct cost of revenues				
Licensing	13,841	70,107	28,259	1,545,775
Structural products	1,774,680	1,867,935	2,646,746	3,966,226
Total direct cost of revenues	1,788,521	1,938,042	2,675,005	5,512,001
	279,294	1,120,562	357,895	2,425,240
Expenses (other income)				
Research and development	31,989	125,678	94,707	325,222
SR&ED tax credit [note 7]	—	(45,000)	—	(95,000)
Selling and marketing	133,012	402,780	424,560	704,334
Engineering and project management	240,746	443,604	460,806	707,031
General and administrative [note 3]	1,002,361	920,780	1,784,530	1,613,985
Occupancy	297,553	349,085	618,325	699,780
	1,705,661	2,196,927	3,382,928	3,955,352
Loss before other expenses	(1,426,367)	(1,076,365)	(3,025,033)	(1,530,112)
Amortization of property, plant and equipment	161,585	232,546	333,253	466,204
Amortization of intangible asset	1,552	71,383	3,103	140,787
Foreign exchange gain	25,832	350	(906)	27,941
(Income) loss from investments[note 5]	—	—	—	—
Loss on disposal of property, plant and equipment	—	26,974	—	31,517
Bank interest expense and penalty charges	43,845	(395)	81,690	32,336
Minimum royalty accretion [note 6]	—	62,049	—	128,190
Debenture accretion	—	60,804	—	60,804
Term loan and debenture interest expense [note 8]	255,484	89,188	270,894	146,298
	488,298	542,899	688,034	1,034,077
Net loss and comprehensive loss for the period	(1,914,665)	(1,619,264)	(3,713,067)	(2,564,189)
Deficit, beginning of period	(66,588,800)	(54,216,054)	(64,790,398)	(53,271,129)
Deficit, end of period	(68,503,465)	(55,835,318)	(68,503,465)	(55,835,318)
Loss per share				
Basic and diluted	\$ (0.03)	\$ (0.05)	\$ (0.07)	\$ (0.08)
Weighted average number of shares outstanding	56,462,351	30,982,858	54,063,337	30,982,858

See accompanying notes

Genesis Worldwide Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

See Note 1 - Basis of Presentation and Going Concern Uncertainty

(unaudited)

	Three months ended		Six months ended	
	June 30 2010	June 30 2009	June 30 2010	June 30 2009
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss for the year	(1,914,665)	(1,619,264)	(3,713,067)	(2,564,189)
Adjustments for non-cash items				
Amortization of property, plant and equipment and intangible assets	163,137	303,929	336,356	606,991
Loss on disposal of property, plant and equipment	—	26,974	—	31,517
Stock-based compensation expense (recovery)	6,239	25,374	(20,853)	61,797
Unrealized foreign exchange loss	—	(15,653)	—	(14,911)
Debenture accretion	—	60,804	—	60,804
Minimum royalty accretion [note 6]	—	62,049	—	128,190
(Income) loss from investment [note 5]	—	—	—	—
	(1,745,289)	(1,155,787)	(3,397,564)	(1,689,801)
Changes in non-cash working capital balances related to operations				
Accounts receivable	254,926	(3,753)	1,338,369	498,826
Inventories and deposits on equipment	35,335	53,210	103,720	703,185
Prepaid expenses	2,099	73,369	51,738	88,824
Accounts payable and accrued liabilities	1,689,606	(568,331)	1,521,876	(536,361)
Deferred revenue	(253,261)	265,533	(260,631)	(1,411,237)
Cash held in trust	—	—	100,000	—
Cash used in operating activities	(16,584)	(1,335,759)	(542,492)	(2,346,564)
FINANCING ACTIVITIES				
Debenture proceeds	—	1,455,752	—	2,952,917
Repayment on term loan [note 8]	—	(138,928)	(97,410)	(275,654)
Changes in long-term liability	—	42,574	—	119,511
Common stock issued	—	—	575,197	—
Cash provided by financing activities	—	1,359,398	477,787	2,796,774
INVESTING ACTIVITIES				
Additions to property, plant and equipment	—	(483)	—	(34,974)
Disposals of property, plant and equipment	—	(12,988)	—	20,527
Additions to intangible assets	—	(13,856)	—	(33,722)
Minimum royalties paid [note 6]	—	(150,000)	—	(300,000)
Cash used in investing activities	—	(177,327)	—	(348,169)
Net increase (decrease) in cash during the year	(16,584)	(153,688)	(64,705)	102,041
Cash, beginning of period	24,126	422,793	72,247	167,064
Cash, end of period	7,542	269,105	7,542	269,105
Supplemental cash flow information				
Interest paid	20,260	56,263	35,670	85,116

See accompanying notes

Genesis Worldwide Inc.

Notes To Interim Consolidated Financial Statements

[unaudited]

June 30, 2010

1. BASIS OF PRESENTATION AND GOING CONCERN UNCERTAINTY

Genesis Worldwide Inc. (“Genesis” or the “Company”), together with its subsidiaries, develops and licenses light steel structural building systems and solutions aimed at the global residential, commercial and institutional building markets. Genesis offers a turn-key solution enabling its customers and partners to custom design, manufacture and install complete light steel building structures (the “Genesis Solution”). The Genesis Solution encompasses engineered processes and materials that are environmentally sustainable or “green”. The Company’s operating activities consist of the ongoing development, licensing and application of its technologies through the licensing and structural products divisions. Genesis generates its revenues from both the licensing and the application of these technologies. 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. It is anticipated that, in the future, the licensing division would derive a majority of its revenue through its participation in various joint venture relationships that are currently under negotiation. Furthermore, structural products will be sold through these joint ventures to their specific regional markets. Effective May 1, 2010, the Company executed a joint venture agreement with Coddling Steel Frame Technologies, an affiliate of Coddling Enterprises L.P. (see notes 5 and 11).

While the accompanying interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations, there are material uncertainties related to certain adverse conditions and events that cast doubt on the validity of this assumption. The Company has not yet realized consistent profitable operations and continues to use cash to fund its operations. The Company’s ability to continue as a going concern is dependent, inter alia, on the following matters: (i) securing financing to fund its immediate short-term operating requirements; and (ii) actively managing its working capital and liquidity. At present, the success of these initiatives cannot be assured due to certain material uncertainties and hence the appropriateness of the use of accounting principles applicable to a going concern.

The first material uncertainty is the ability of the Company to secure financing to fund its immediate short-term operating requirements. If the Company is unable to raise additional capital in the immediate future, the Company may not be able to generate sufficient cash flow from operations to fund its obligations as they come due. Additional funding may be in the form of debt or equity, or a hybrid instrument, depending on the needs of the investor. Although the Company is currently in various discussions regarding financing, there can be no assurances however, that the Company will be successful in obtaining the necessary immediate short-term funding necessary to continue as a going concern.

The second material uncertainty is the ability of the Company to manage its working capital and liquidity. The Company has continued to incur losses and has cumulative losses and a working capital deficiency of \$68,503,465 and \$7,341,559, respectively, as at June 30, 2010. On May 28, 2010, Coddling Enterprises L.P. (“Coddling”), a current shareholder of the Company, completed the purchase of the secured non-revolving term loan. The amount of the term loan has been adjusted to include the costs incurred by Coddling, including accrued interest and other late charges incurred up to and including the date that the term loan was acquired. The amount of \$83,460 has been recorded by the Company as

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term loan and debenture interest expense during the second quarter ended June 30, 2010. Codding has agreed to modify the term loan in several ways advantageous to the Company, including a reduction in the monthly loan payments, and removal of certain restrictive covenants. The modifications will include the following: (i) \$84,339 will be repaid in 18 equal installments over 18 months, with interest accruing and paid monthly at 12% per annum on the unpaid balance; (ii) the balance of the term loan will be modified to reflect monthly interest-only payments at 12% per annum and the term of the loan will be extended to five years. As part of the transaction, a modification fee of \$159,690 (equivalent to US\$150,000), payable to Codding, was accrued and recorded as term loan and debenture interest expense, as at and for the period ending June 30, 2010, respectively. Subsequent to June 30, 2010, Codding withdrew the modification fee from the restricted cash balance. On January 11, 2010, the Company received a termination notice from Best Joist Inc. ("Licensor" or "BJI") in regards to the 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 (see note 6). On June 10, 2010, a statement of claim was filed by BJI against the Company for damages for breach of contract and for interference with economic relations. The Company has accrued the amount claimed as damages for breach of contract, but upon receiving legal advice from counsel, the Company has not accrued for the amount claimed as interference with economic relations and is currently defending this action. The Company will continue to use the license in order to complete production as it relates to orders that were in backlog at the termination date per the agreement. In addition, the Company has begun the process of exploring alternative and more competitive technology as it relates to the production of steel joist products. During the quarter ended March 31, 2010, due to the termination notice, an entry was made to reduce the minimum royalty obligation and intangible asset amount. As part of the KML transaction (see note 5), amounts owing to BJI would be assumed by the acquisition entity as part of the divestiture of KML Engineered Homes Ltd. ("KML"), a subsidiary of the Company. As at June 30, 2010, the Company has not yet reached an agreement with the Canada Revenue Agency and the Ontario Ministry of Revenue regarding unremitted liabilities owing in the amount of \$2,310,719, of which \$2,061,319 is owing from KML, and the balance of \$249,400 is owing from the Company's other subsidiaries. The Company's liquidity issues, its default under the BJI license agreement, and the liabilities owing to the Canada Revenue Agency and the Ontario Ministry of Revenue may impair the Company's ability to execute its business plan in a timely manner. There are also uncertainties related to the timing and use of the Company's cash resources and working capital requirements.

These interim consolidated financial statements do not include any adjustments or disclosures that may result from the Company's inability to continue as a going concern. If the going concern assumption was not appropriate for the consolidated financial statements, adjustments may be necessary in the carrying values of assets and liabilities, reported expenses and balance sheet classifications; such adjustments could be material. The accompanying financial information reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the years presented.

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2. ADOPTION OF RECENT CANADIAN ACCOUNTING STANDARDS IN 2010

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 Generally Accepted Accounting Principles (“GAAP”). Companies will be required to provide comparative IFRS information for the previous fiscal year.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In December 2008, the Canadian Institute of Chartered Accountants (“CICA”) approved three new accounting standards; Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements, and Section 1602 – Non-Controlling Interests, replacing Section 1581 – Business Combinations, and Section 1600 – Consolidated Financial Statements. Section 1582 provides the Canadian equivalent to IFRS 3 – Business Combinations (January 2008), and Sections 1601 and 1602 to International Accounting Standard 27 – Consolidated and Separate Financial Statements (January 2008), respectively.

Section 1582 requires additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure for the accounting of a business combination. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Entities adopting Section 1582 will also be required to adopt Sections 1601 and 1602.

Section 1601 establishes standards for the preparation of consolidated financial statements.

Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards will require a change in the measurement of non-controlling interest and will require the non-controlling interest to be presented as part of the shareholders’ equity on the balance sheet. In addition, the net earnings will include 100% of the subsidiary’s results and will be allocated between the controlling interest and non-controlling interest.

EIC-175 – Multiple Deliverable Revenue Arrangements

In December 2009, the Emerging Issues Committee (“EIC”) approved abstract EIC-175, “Multiple Deliverable Revenue Arrangements”, which provides additional guidance on how to determine whether

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an arrangement involving multiple deliverables contains more than one unit of accounting and addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. EIC-175 applies to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011. The Company has not yet determined what the impact of adopting this standard will have on its financial statements.

3. ACCOUNTS RECEIVABLE AND MORTGAGE RECEIVABLE

Accounts receivable and mortgage receivable consist of the following:

	June 30 2010	December 31 2009
	\$	\$
Trade	2,563,887	3,310,439
Holdback receivables	718,277	1,191,390
Unbilled revenue	188,860	189,550
Allowance for doubtful accounts	(2,124,203)	(2,036,374)
	1,346,821	2,655,005
SR&ED investment tax credits	121,447	121,447
Goods and services tax	11,568	41,752
	1,479,836	2,818,204
<i>Aging</i>		
Current	639,434	244,820
31-60 days	—	219,155
61-90 days	48,406	465,513
Over 90 days	1,876,047	2,380,951
	2,563,887	3,310,439

Mortgage receivable bears interest at 8% and is carried at amortized costs. The mortgage is collateralized by the project under construction.

During the quarter ended June 30, 2010, \$71,408 [2009 - \$228,126] was recorded as a bad debt expense and is included in general and administrative expenses. During the six months ended June 30, 2010, \$87,830 [2009 - \$228,126] was recorded as a bad debt expense and is included in general and administrative expenses.

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4. INVENTORY

Inventory consists of the following:

	June 30, 2010	December 31, 2009
	\$	\$
Raw materials	126,434	210,895
Inventory held for resale	116,065	135,324
	242,499	346,219

Inventory held for resale are equipment items that have been purchased by the Company for future resale. During the three months ended June 30, 2010, inventory provisions for obsolescence were charged to operations in the amount of \$9,341 [2009 - \$6,240]. During the six months ended June 30, 2010, inventory provisions for obsolescence were charged to operations in the amount of \$19,260 [2009 - \$6,240].

5. INVESTMENT

During the six months ended June 30, 2010, in an effort to enhance the worldwide adoption of the Genesis Solution, the Company is changing its licensing strategy. As part of its new business strategy, the Company anticipates entering into joint venture arrangements with potential licensees to develop light steel structural component manufacturing operations in strategic global locations where the need for a more efficient building system is necessary and required. This strategy creates a new business model that gives Genesis a stake in an existing or newly formed joint venture entity where it partners with a substantial well-established local company. An equity stake in the business will allow the Company to share in the potential profits of this operation and to directly influence the direction and success of the business. In addition, the Company may reduce significant portions of its overhead as the joint venture operations endeavour to reach profitability. Accordingly, the Company is in discussions with Alexandria Steel Forming Co. ("Alexandria Steel"), a leading supplier of steel, forming components, steel slitting and other steel related products located in Alexandria, Egypt, and Manazil Steel Framing Co. ("Manazil"), a construction company located in Abu Dhabi, UAE, and also a current licensee, regarding the creation of joint venture operations in the respective regions. As part of the Manazil transaction, the Company transferred three employees as at March 31, 2010, and one employee as at April 30, 2010, to the Manazil joint venture. The employees that transferred to Manazil included Maged Mostafa; the former Chief Operating Officer of the Company's licensing division. On April 13, 2010, in furtherance of its new strategic direction, the Board of Directors of the Company formed a special committee to negotiate a joint venture with Coddling Steel Frame Technologies ("CSFT"), an affiliate of Coddling Enterprises L.P. ("Coddling"), the Company's largest shareholder, covering the United States and its territories and possessions, the Caribbean, Mexico, British Columbia and South America. In addition, the Board of Directors has formed a special committee to negotiate the divestiture

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of KML Engineered Homes Ltd. (“KML”), a subsidiary of the Company, to an acquisition entity to be formed and owned by a director and consultant for the Company, James Arabia, whereby the Company would retain the ability to own a significant equity interest in KML through ownership of convertible securities issued by the acquisition entity. The Company has also signed a memorandum of understanding with a substantial Vietnamese construction equipment company, Megastar, a current licensee of the Company, to enter into a joint venture to manufacture and erect the Genesis system in South East Asia. Although the Company believes it is likely that it will consummate the contemplated joint venture and divestiture transactions, there can be no assurance that any or all of the transactions will ultimately be finalized, or that, if finalized, they will be under the same terms and conditions as currently contemplated.

Effective May 1, 2010, the Company executed a joint venture agreement with Coddling Steel Frame Technologies (“CSFT”), an affiliate of Coddling Enterprises L.P. (“Coddling”). Effective the date of the agreement, the Company terminated the license agreement between the Company and Coddling and is entering into a master license agreement with a newly formed entity, Genesis Steel Frame Solutions L.P. (“GSFS LP”), a California limited partnership. In return, the Company will have a 35.7% interest in GSFS LP. Within 12 months of the date of the agreement, the Company is required to contribute \$500,000 to GSFS LP in immediately available funds or other similar assets. Once the Company has contributed \$500,000 to GSFS LP, the Company’s ownership interest will increase from 35.7% to 40%. Within 12 months of the date of the agreement, the Company has the option to contribute \$1,500,000 to GSFS LP in immediately available funds in order to increase its ownership interest to 49%. The Company has accounted for the investment in GSFS LP under the equity method.

The Company’s notional share in the loss of GSFS LP was \$133,023. As the loss exceeds the current carrying value of the investment, the Company has recorded \$nil during the quarter ended June 30, 2010.

The following information reflects GSFS LP’s financials for the period ending and as at June 30, 2010:

Revenue	\$ 487,255
Net income (loss)	\$ (372,613)

Current assets	\$1,148,902
Non-current assets	\$ 40,362
Current liabilities	\$ 822,482
Non-current liabilities	\$ -

Genesis Worldwide Inc.

Notes To Interim Consolidated Financial Statements

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6. INTANGIBLE ASSETS

	June 30, 2010		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Software	75,725	58,143	17,582
	75,725	58,143	17,582
	December 31, 2009		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
License	2,179,678	1,185,262	994,416
Software	75,725	55,040	20,685
	2,255,403	1,240,302	1,015,101

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 Company commenced amortization in November 2005 when the technology and related systems were completed and available for use.

On January 11, 2010, the Company received a termination notice from Best Joist Inc. (“Licensor” or “BJI”) in regards to the 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. On June 10, 2010, a statement of claim was filed by BJI against the Company for damages for breach of contract and for interference with economic relations. The Company has accrued the amount claimed as damages for breach of contract, but upon receiving legal advice from counsel, the Company has not accrued for the amount claimed as interference with economic relations and is currently defending this action. The Company will continue to use the license in order to complete production as it relates to orders that were in backlog at the termination date per the agreement. In addition, the Company has begun the process of exploring alternative and more competitive technology as it relates to the production of steel joist products. During the quarter ended March 31, 2010, due to the termination notice, an entry was made to reduce the minimum royalty obligation and intangible asset amount. As part of the KML transaction (see note 5), amounts owing to BJI would be assumed by the acquisition entity as part of the divestiture of KML Engineered Homes Ltd (“KML”), a subsidiary of the Company.

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7. RESEARCH AND DEVELOPMENT RECOVERY

During the three-month period ended June 30, 2010, the Company recorded a recovery of \$nil [2009 - \$45,000] and for the six months ended June 30, 2010 of \$nil [2009 - \$95,000] in tax incentives related to eligible expenditures for scientific research and experimental development. The amount has been recorded as a reduction to expenses in the interim consolidated statement of loss, comprehensive loss and deficit.

8. TERM LOAN

In June 2008, KML completed a three-year \$1,800,000 secured non-revolving term loan with a large non-bank Canadian lender with interest payable at a fixed rate of 8.17%. This term loan is repayable in equal monthly installments of principal plus interest scheduled to mature in 2011. The lender required KML to provide a \$500,000 irrevocable letter of credit which was issued by a Canadian chartered bank and is secured by a restricted cash deposit of \$500,000 at that bank. The term loan was formalized and fully drawn down in July 2008. KML provided a general security agreement providing the lender with a security interest in all of the assets of the subsidiary. The term loan is guaranteed by the Company and its other subsidiaries, each of which provided a general security agreement providing the lender with a security interest in all of its assets. On May 28, 2010, Codding Enterprises L.P. ("Codding"), a current shareholder of the Company, completed the purchase of the secured non-revolving term loan. The amount of the term loan has been adjusted to include the costs incurred by Codding, including accrued interest and other late charges incurred up to and including the date that the term loan was acquired. The amount of \$83,460 has been recorded by the Company as term loan and debenture interest expense. Codding has agreed to modify the term loan in several ways advantageous to the Company, including a reduction in the monthly loan payments, and removal of certain restrictive covenants. The modifications will include the following: (i) \$84,339 will be repaid in 18 equal installments over 18 months, with interest accruing and paid monthly at 12% per annum on the unpaid balance; (ii) the balance of the term loan will be modified to reflect monthly interest-only payments at 12% per annum and the term of the loan will be extended to five years. As part of the transaction, a modification fee of \$159,690 (equivalent to US\$150,000), payable to Codding, was accrued and recorded as term loan and debenture interest expense, as at and for the period ending June 30, 2010, respectively. Subsequent to June 30, 2010, Codding withdrew the modification fee from the restricted cash balance.

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9. CAPITAL STOCK

[a] Private Placement

On March 19, 2010, the Company completed a non-brokered private placement (the "Private Placement") of 5,639,241 common shares at prices ranging from \$0.09418 to \$0.1230 per common share in satisfaction of the payment of outstanding indebtedness of an aggregate of \$593,390. Muzzo Brothers Group Inc. ("Muzzo Brothers") subscribed for 2,777,437 common shares, pursuant to the Private Placement. Muzzo Brothers is an affiliate of Zuzum Acquisition Inc., an existing shareholder and an insider of the Company. Following the completion of the Private Placement, Zuzum Acquisition Inc., and its associates and affiliates together, are the registered and beneficial holders of 8,315,177 common shares of the Company, representing approximately 14.7% of the issued and outstanding common shares of the Company. Due to the participation by Muzzo Brothers in the Private Placement, the Private Placement is a "related party transaction" for the purposes of Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions ("MI 61-101"). The Company is relying on the exemptions from the valuation and minority approval requirements of MI 61-101 contained in paragraph (a) of Section 5.5 and paragraph (a) of Section 5.7, respectively, of MI 61-101, as neither the fair market value of the subject matter of, nor the fair market value of the consideration for, the portion of the Private Placement subscribed for by Muzzo Brothers exceeded 25% of the Company's market capitalization.

	June 30, 2010		December 31, 2009	
	Number of Shares #	Paid-up capital \$	Number of shares #	Paid-up capital \$
Common shares outstanding, beginning of period	50,823,110	61,114,911	30,982,858	56,733,075
Common shares converted from debenture	—	—	12,540,252	3,117,644
Common shares issued on private placement	5,639,241	593,390	7,300,000	1,825,000
Transaction costs	—	(18,193)	—	(560,808)
Common shares outstanding, end of period	56,462,351	61,690,108	50,823,110	61,114,911

[b] 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

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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.

The total number of options issuable to employees under the Stock Option Plan is 10% of the common shares issued and outstanding. There were 434,750 options outstanding under the Company's Stock Option Plan as at June 30, 2010 [2009 – 2,382,674 options outstanding].

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

	June 30, 2010		December 31, 2009	
Number of Options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$	
EMPLOYEES AND DIRECTORS				
Outstanding, beginning of period	2,238,674	0.76	2,219,392	0.76
Granted during the period	—	—	700,000	0.27
Forfeited	(1,803,924)	0.58	(680,718)	0.66
Outstanding, end of period	434,750	0.88	2,238,674	0.61
Exercisable, end of period	413,000	0.79	1,688,174	0.50
OTHERS				
Outstanding, beginning of period				
Granted to debenture holders	835,712	2.15	835,712	2.15
Outstanding, end of period	835,712	2.15	835,712	2.15
Exercisable, end of period	835,712	2.15	835,712	2.15
Total outstanding, end of period	1,270,462	1.72	3,074,386	1.03
Total exercisable, end of period	1,248,712	1.70	2,523,886	1.05

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The following table summarizes information about the Company's outstanding stock options issued to employees and directors as at June 30, 2010:

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	253,000	8.18	0.26	253,000	0.26
0.44 to 0.45	65,000	5.54	0.45	65,000	0.45
0.85 to 1.30	5,000	8.12	1.11	5,000	1.11
1.70 to 2.15	30,000	7.11	1.91	25,000	1.89
2.75	81,750	6.82	2.75	65,000	2.75
	434,750	7.46	0.88	413,000	0.79

The amount of stock option compensation expense related to granted options recognized in the consolidated statements of loss, comprehensive loss and deficit and debited to contributed surplus for the three and six month periods ended June 30, 2010 was \$6,239 [2009 – \$25,374] and a recovery of \$20,853 [2009 – a cost of \$61,797], respectively. 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 debenture options	4.5 years
Expected dividends	Nil
Expected volatility	75%
Risk-free interest rate	2.91% - 2.99%

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

Risk-free interest rate	2.90%
Assumed expected life of the options	6 years
Dividend yield	nil

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[c] Contributed surplus

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

	June 30, 2010 \$	December 31, 2009 \$
Balance, beginning of period	1,842,492	1,246,358
Stock based compensation expense (recovery) related to employee stock options	(20,853)	169,384
Share purchase warrants issued in relation to the private placement <i>[note 8a]</i>	—	426,750
Balance, end of period	1,821,639	1,842,492

[d] Share purchase warrants

Warrants were issued in conjunction with the private placements that had taken place on July 27 and July 31, 2009. The terms or value of the warrants are determined by the Company's Board of Directors at the time of grant. The fair value for warrants was determined using the Black-Scholes option pricing model under the following assumptions:

Expected life of share purchase warrants	4 years
Expected volatility	62%
Risk-free interest rate	1.73%

As at June 30, 2010, the Company had 3,650,000 share purchase warrants outstanding. Each warrant entitles the holder the right to purchase one common share as follows:

Number	Exercise Price	Expiry Date
3,350,000	\$0.35	July 27, 2013
<u>300,000</u>	\$0.35	July 31, 2013
3,650,000		

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Information regarding the Company's outstanding share purchase warrants is summarized below:

	June 30, 2010		December 31, 2009	
	Number of warrants #	Weighted average exercise price \$	Number of warrants #	Weighted average exercise price \$
Outstanding, beginning of period	3,650,000	0.35	—	—
Issued during the period	—	—	3,650,000	0.35
Outstanding, end of period	3,650,000	0.35	3,650,000	0.35

The issue of these warrants has been credited to contributed surplus.

10. RELATED PARTY TRANSACTIONS

Royalty revenues were earned in the second quarter of 2010 from a shareholder of the Company in connection with a license arrangement, which was signed prior to the party becoming a shareholder. The license arrangement was revised on October 6, 2009. The amount of revenue earned at the exchange amount agreed upon between the parties for the three months ended June 30, 2010 was a reversal of \$20,688 [2009 – \$81,513], and for the six months ended June 30, 2010 was \$129,965 [2009 – \$156,232]. The amount included in accounts receivable as at June 30, 2010 was \$nil [2009 – \$nil]. Pursuant to the joint venture agreement (see note 5), effective May 1, 2010, the license arrangement has been cancelled.

Another shareholder of the Company has a business relationship as a contract customer of the Company with regular credit terms. Revenues earned for the three months ended June 30, 2010, at the exchange amount agreed upon between the parties is \$nil [2009 – \$nil], and for the six months ended June 30, 2010 was \$nil [2009 – \$60,872]. The amount included in accounts receivable as at June 30, 2010 is \$nil [2009 – \$25,515]. The Company 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. Effective June 30, 2010, the Company and the shareholder agreed to amend the commercial property lease. The amended lease agreement reduced the rentable area, thereby reducing the annual minimum base rent to \$635,052.

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11. SEGMENT 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 systems and solutions aimed at the global residential, commercial and institutional building markets.

During the six months ended June 30, 2010, in an effort to enhance the worldwide adoption of the Genesis Solution, the Company is changing its licensing strategy. As part of its new business strategy, the Company anticipates entering into joint venture arrangements with potential licensees to develop light steel structural component manufacturing operations in strategic global locations where the need for a more efficient building system is necessary and required. This strategy creates a new business model that gives Genesis a stake in an existing or newly formed joint venture entity where it partners with a substantial well-established local company. An equity stake in the business will allow the Company to share in the potential profits of this operation and to directly influence the direction and success of the business. In addition, the Company may reduce significant portions of its overhead as the joint venture operations endeavour to reach profitability. Accordingly, the Company is in discussions with Alexandria Steel Forming Co. ("Alexandria Steel"), a leading supplier of steel, forming components, steel slitting and other steel related products located in Alexandria, Egypt, and Manazil Steel Framing Co. ("Manazil"), a construction company located in Abu Dhabi, UAE, and also a current licensee, regarding the creation of joint venture operations in the respective regions. As part of the Manazil transaction, the Company transferred three employees as at March 31, 2010, and one employee as at April 30, 2010, to the Manazil joint venture. The employees that transferred to Manazil included Maged Mostafa; the former Chief Operating Officer of the Company's licensing division. On April 13, 2010, in furtherance of its new strategic direction, the Board of Directors of the Company formed a special committee to negotiate a joint venture with Codding Steel Frame Technologies ("CSFT"), an affiliate of Codding Enterprises L.P., ("Codding"), the Company's largest shareholder, covering the United States and its territories and possessions, the Caribbean, Mexico, British Columbia and South America. In addition, the Board of Directors has formed a special committee to negotiate the divestiture of KML Engineered Homes Ltd. ("KML"), a subsidiary of the Company, to an acquisition entity to be formed and owned by a director and consultant for the Company, James Arabia, whereby the Company would retain the ability to own a significant equity interest in KML through ownership of convertible securities issued by the acquisition entity. Effective May 1, 2010, the Company executed a joint venture agreement with CSFT (see note 5). Although the Company believes it is likely that it will consummate the contemplated joint venture and divestiture transactions, there can be no assurance that any or all of the transactions will ultimately be finalized, or that, if finalized, they will be under the same terms and conditions as currently contemplated.

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Structural Products

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

As part of the new licensing strategy, the Board of Directors has formed a special committee to negotiate the divestiture of the structural products division (see note 5).

Three months ended June 30, 2010	Licensing \$	Structural products \$	Total operations \$	Corporate \$	Consolidated \$
Revenues	(17,028)	2,084,843	2,067,815	—	2,067,815
Direct cost of revenues	13,841	1,774,680	1,788,521	—	1,788,521
Contribution margin	(30,869)	310,163	279,294	—	279,294
Expenses before the undernoted	317,431	917,664	1,235,095	470,566	1,705,661
Income (loss) before the following	(348,300)	(607,501)	(955,801)	(470,566)	(1,426,367)
Amortization	(1,116)	(161,431)	(162,547)	(590)	(163,137)
Foreign exchange loss	3,351	(7,294)	(3,943)	(21,889)	(25,832)
Interest	(13,032)	(277,907)	(290,939)	(8,390)	(299,329)
Net loss for the period	(359,097)	(1,054,133)	(1,413,230)	(501,435)	(1,914,665)

Three months ended June 30, 2009	Licensing \$	Structural products \$	Total operations \$	Corporate \$	Consolidated \$
Revenues	805,636	2,252,968	3,058,604	—	3,058,604
Direct cost of revenues	70,107	1,867,935	1,938,042	—	1,938,042
Contribution margin	735,529	385,033	1,120,562	—	1,120,562
Expenses before the undernoted	600,153	1,172,377	1,772,530	424,397	2,196,927
Income (loss) before the following	135,376	(787,344)	(651,968)	(424,397)	(1,076,365)
Amortization	(89,500)	(211,335)	(300,835)	(3,094)	(303,929)
Foreign exchange gain (loss)	(3,065)	2,712	(353)	3	(350)
Loss on fixed asset disposal	(26,974)	—	(26,974)	—	(26,974)
Interest and minimum royalty accretion	(69,525)	(62,907)	(132,432)	(79,214)	(211,646)
Net loss for the period	(53,688)	(1,058,874)	(1,112,562)	(506,702)	(1,619,264)

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Six months ended June 30, 2010	Licensing \$	Structural products \$	Total operations \$	Corporate \$	Consolidated \$
Revenues	174,069	2,858,831	3,032,900	—	3,032,900
Direct cost of revenues	28,259	2,646,746	2,675,005	—	2,675,005
Contribution margin	145,810	212,085	357,895	—	357,895
Expenses before the undernoted	780,402	1,616,848	2,397,250	985,678	3,382,928
Income (loss) before the following	(634,592)	(1,404,763)	(2,039,355)	(985,678)	(3,025,033)
Amortization	(2,231)	(332,945)	(335,176)	(1,180)	(336,356)
Foreign exchange loss	18,346	(5,432)	12,914	(12,008)	906
Interest	(15,083)	(324,739)	(339,822)	(12,762)	(352,584)
Net loss for the period	(633,560)	(2,067,879)	(2,701,439)	(1,011,628)	(3,713,067)

Six months ended June 30, 2009	Licensing \$	Structural products \$	Total operations \$	Corporate \$	Consolidated \$
Revenues	3,031,169	4,906,072	7,937,241	—	7,937,241
Direct cost of revenues	1,545,775	3,966,226	5,512,001	—	5,512,001
Contribution margin	1,485,394	939,846	2,425,240	—	2,425,240
Expenses before the undernoted	1,282,092	1,799,140	3,081,232	874,120	3,955,352
Income (loss) before the following	203,302	(859,294)	(655,992)	(874,120)	(1,530,112)
Amortization	(178,159)	(422,670)	(600,829)	(6,162)	(606,991)
Foreign exchange gain (loss)	(27,781)	400	(27,381)	(560)	(27,941)
Loss on fixed asset disposal	(31,517)	—	(31,517)	—	(31,517)
Interest and minimum royalty accretion	(156,126)	(125,852)	(281,978)	(85,650)	(367,628)
Net loss for the period	(190,281)	(1,407,416)	(1,597,697)	(966,492)	(2,564,189)

As at June 30, 2010	Licensing \$	Structural products \$	Total operations \$	Corporate \$	Consolidated \$
Total assets	252,694	4,397,815	4,650,509	133,190	4,783,699
Mortgage receivable	—	432,908	432,908	—	432,908
Property, plant and equipment	—	1,893,191	1,893,191	6,160	1,899,351
Intangible assets	12,643	2,133	14,776	2,806	17,582

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As at June 30, 2009	Licensing \$	Structural products \$	Total operations \$	Corporate \$	Consolidated \$
Total assets	4,523,584	10,867,350	15,390,934	183,254	15,574,188
Capital expenditures	—	34,491	34,491	483	34,974
Property, plant and equipment	165,858	4,157,321	4,323,179	30,822	4,354,001
Intangible assets	2,022,577	3,047	2,025,624	4,009	2,029,633

Geographical distribution of revenues is as follows:

Six months ended June 30	Canada \$	U.S. \$	International \$	Consolidated \$
2010	2,858,831	129,965	44,104	3,032,900
2009	4,998,406	156,232	2,782,602	7,937,241

12. SUBSEQUENT EVENTS

Subsequent to June 30, 2010, the Company continued to experience significant liquidity challenges, undermining its ability to continue to operate on a going concern basis. While the Company continues to take steps to address its immediate short-term funding necessary to continue as a going concern, there is substantial doubt concerning the ability of the Company to continue as a going concern. In the event that the Company is not able to secure additional financing to fund its short-term operating requirements, the Company may be forced to discontinue operations.

On April 8 2010, the Company received a Notice of Intention to Dissolve a Corporation (the "Notice") from the Ministry of Consumer and Business Services due to the fact that KML was not in compliance under Part IX – Section 115-2(a) of the *Ontario Business Corporations Act* ("OBCA"), wherein KML, at the subsidiary level, did not have any directors. KML had 90 days from receipt of the notice to comply with the OBCA requirements. Subsequent to June 30, 2010, KML has met the OBCA requirements.

Subsequent to June 30, 2010, the Company entered into a sub-lease agreement with a third-party for the period July 1, 2010 to October 15, 2010 for a portion of the reduced rentable area (see note 10).

Subsequent to June 30, 2010, as part of the transaction to purchase the secured non-revolving term loan (see note 8), Coddling withdrew the modification fee of \$159,690 (equivalent to US\$150,000) from the restricted cash balance.