



Interim Consolidated Financial Statements

Genesis Worldwide Inc.

September 30, 2009

[unaudited]

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

Genesis Worldwide Inc.

CONSOLIDATED BALANCE SHEETS

See Note 1. - Basis of Presentation and Going Concern Uncertainty

(unaudited)

	As at September 30 2009 \$	As at December 31 2008 \$
ASSETS		
Current		
Cash and cash equivalents	240,245	167,064
Accounts receivable [notes 3 and 9]	6,655,179	7,780,771
Inventories and deposits on equipment [note 5]	694,411	1,626,187
Prepaid expenses	433,985	310,964
Total current assets	8,023,820	9,884,986
Restricted cash [note 7]	500,000	500,000
Property, plant and equipment	4,196,801	4,848,059
Intangible assets	1,943,865	2,105,862
	14,664,486	17,338,907
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	6,461,386	6,916,928
Term loan - current portion [note 7]	1,136,674	570,943
Deferred revenue	973,928	2,779,266
Minimum royalty payment obligations	536,443	376,792
Total current liabilities	9,108,431	10,643,929
Long-term		
Long-term payables [note 8]	65,810	—
Term loan [note 7]	—	983,253
Minimum royalty payment obligations	695,408	1,002,923
Total long-term liabilities	761,218	1,986,176
Commitments and contingencies [notes 1 and 8]		
Shareholders' equity		
Capital stock [note 4 and 8]	61,032,009	56,733,075
Contributed surplus [note 4]	1,771,297	1,246,358
Deficit	(58,008,469)	(53,270,631)
Total shareholders' equity	4,794,837	4,708,802
	14,664,486	17,338,907

See accompanying notes

On behalf of the Board:

(Signed) Lawrence Davis
Director

(Signed) Brad Baker
Director

Genesis Worldwide Inc.

CONSOLIDATED STATEMENT OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

(unaudited)

	Three months ended		Nine months ended	
	September 30 2009	September 30 2008	September 30 2009	September 30 2008
	\$	\$	\$	\$
Revenues <i>[note 9]</i>				
Licensing	440,636	2,746,520	3,471,805	7,311,009
Structural products	3,157,614	2,555,043	8,063,686	9,498,735
Total revenues	3,598,250	5,301,563	11,535,491	16,809,744
Direct cost of revenues				
Licensing	128,145	1,402,877	1,673,920	3,223,480
Structural products	2,443,294	2,231,295	6,409,520	8,468,404
Total direct cost of revenues	2,571,439	3,634,172	8,083,440	11,691,884
	1,026,811	1,667,391	3,452,051	5,117,860
Expenses				
Research and development	142,940	278,665	468,162	1,005,939
SR&ED tax credit <i>[note 6]</i>	—	(91,534)	(95,000)	(165,025)
Selling and marketing	348,982	678,784	1,053,316	1,982,541
Engineering and project management	332,558	323,831	1,039,589	1,343,015
General and administrative	1,540,793	1,138,259	3,154,778	3,826,673
Occupancy	351,942	351,744	1,051,722	1,087,159
Corporate reorganization costs	—	464,448	—	464,448
	2,717,215	3,144,197	6,672,567	9,544,750
Loss before other expenses	(1,690,404)	(1,476,806)	(3,220,516)	(4,426,890)
Amortization of property, plant and equipment	237,486	220,763	707,609	657,101
Amortization of intangible asset	82,604	67,413	219,472	202,238
Foreign exchange gain (loss)	(14,679)	(33,732)	13,262	(21,520)
Loss on disposal of fixed assets	80,736	—	112,253	—
Bank interest expense, net	50,816	67,560	83,152	15,778
Minimum royalty accretion	57,755	71,966	185,945	219,434
Debenture accretion	(60,804)	—	—	—
Term loan and debenture interest expense <i>[notes 7 and 8]</i>	48,833	36,068	195,131	36,068
	482,747	430,038	1,516,824	1,109,099
Net loss and comprehensive loss for the period	(2,173,151)	(1,906,844)	(4,737,340)	(5,535,989)
Deficit, beginning of period	(55,835,318)	(49,670,813)	(53,271,129)	(46,041,668)
Deficit, end of period	(58,008,469)	(51,577,657)	(58,008,469)	(51,577,657)
Loss per share				
Basic and diluted	\$ (0.05)	\$ (0.06)	\$ (0.13)	\$ (0.18)
Weighted average number of shares outstanding	45,000,427	30,982,858	35,706,728	30,982,858

See accompanying notes

Genesis Worldwide Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three months ended		Nine months ended	
	September 30 2009	September 30 2008	September 30 2009	September 30 2008
	\$	\$	\$	\$
OPERATING ACTIVITIES				
Net loss for the period	(2,173,151)	(1,906,842)	(4,737,340)	(5,535,989)
Adjustments for non-cash items				
Amortization of property, plant and equipment and intangible asset	306,651	288,175	913,642	859,338
Loss on disposal of fixed assets	80,736	—	112,253	—
Stock-based compensation expense	36,392	33,005	98,189	123,005
Unrealized foreign exchange loss	15,483	—	572	—
Debenture accretion	(60,804)	—	—	—
Minimum royalty accretion	57,755	71,966	185,945	219,434
	(1,736,938)	(1,513,696)	(3,426,739)	(4,334,212)
Changes in non-cash working capital balances related to operations				
Accounts receivable, net	626,764	3,571,603	1,125,590	3,604,326
Inventories and deposits on equipment	228,591	1,294,395	931,776	(83,184)
Prepaid expenses	(211,845)	38,815	(123,021)	110,777
Accounts payable and accrued liabilities	80,820	(888,616)	(455,541)	(1,324,756)
Deferred revenue	(394,101)	(2,939,831)	(1,805,338)	(2,820,608)
Cash used in operating activities	(1,406,709)	(437,330)	(3,753,273)	(4,847,657)
FINANCING ACTIVITIES				
Debenture proceeds	—	1,800,000	—	1,800,000
Repayment on term loan	(141,868)	(88,487)	(417,522)	(88,487)
Restricted cash	—	(500,000)	—	(500,000)
Changes in long-term liability	(53,701)	—	65,810	—
Common stock issued	4,725,684	—	4,725,684	—
Convertible debenture issued (redeemed), net of issue costs paid <i>[note 8]</i>	(2,952,917)	—	—	—
Cash provided by financing activities	1,577,198	1,211,513	4,373,972	1,211,513
INVESTING ACTIVITIES				
Additions to property, plant and equipment	(155,224)	(41,845)	(169,671)	(1,279,892)
Deferred patent costs	(10,315)	(55,770)	(44,037)	(55,770)
Minimum royalties paid	(33,810)	(150,000)	(333,810)	(310,000)
Cash used in investing activities	(199,349)	(247,615)	(547,518)	(1,645,662)
Net increase (decrease) in cash and cash equivalents during the year	(28,860)	526,568	73,181	(5,281,806)
Cash and cash equivalents, beginning of period	269,105	179,488	167,064	5,987,862
Cash and cash equivalents, end of period	240,245	706,056	240,245	706,056
Supplemental cash flow information				
Interest paid	23,717	36,068	108,833	36,068

See accompanying notes

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Notes To Interim Consolidated Financial Statements

[unaudited]

September 30, 2009

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 technologies aimed at the global residential, commercial and institutional building markets. Genesis offers licensees and solution providers a turn-key solution enabling them 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.

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 significant 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; (ii) actively managing its working capital and liquidity; and (iii) recruiting a permanent Chief Executive Officer and retaining staff generally. 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 does not expect its operations to generate sufficient cash flow 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. 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. In the event that the Company is not able to secure additional immediate financing to fund its short-term operating requirements, the Company may be forced to discontinue its entire operations.

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 had cumulative losses and a working capital deficiency of \$58,008,469 and \$1,084,611, respectively, as at September 30, 2009. As at September 30, 2009, KML was in default on its secured non-revolving term loan agreement (note 7) and has not received a waiver from the lender. Accordingly, the full amount owing of \$529,767 as at September 30, 2009 has been reclassified as a current liability as under certain circumstances it may become immediately repayable. Subsequent to September 30, 2009, the Company received notification that the Ontario Ministry of Revenue had registered its statutory lien against the assets of KML under the *Personal Property Security Act* (Ontario) on account of \$633,978 of unremitted sales taxes owing. KML has entered into an agreement with the Ontario Ministry of Revenue providing for the payment of these

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unremitted sales taxes owing over a period of approximately ten months. In the event that the repayment terms are not satisfied, the Ontario Ministry of Revenue may seek to enforce its lien and collect the unremitted sales taxes owing immediately. The Company's liquidity issues may impair the Company's ability to execute its business plan, and may result in the reduction of sales and marketing efforts and the foregoing of attractive business opportunities. There are also uncertainties related to the timing and use of the Company's cash resources and working capital requirements. Due to these and other factors, many of which are outside of the Company's control, the Company may not be able to accurately predict necessary cash expenditures or obtain financing in a timely manner to cover any shortfalls.

The third material uncertainty is the ability to recruit a permanent Chief Executive Officer and to retain staff generally. On November 4, 2009, the Chief Executive Officer of the Company tendered his resignation effective November 13, 2009. As of November 16, 2009, Richard Pope has been appointed as the Interim Chief Executive Officer of the Corporation, subject to the receipt of any necessary regulatory approvals. However, the absence of a permanent Chief Executive Officer may adversely impact the Company's ability to continue to operate as a going concern. Additionally, the Corporation must continue to retain staff generally to continue to operate. Due to the immediate liquidity crisis facing the Company, there is significant doubt as to the Company's ability to continue to carry out day-to-day management decisions and operate as a going concern.

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 these interim consolidated financial statements, adjustments may be necessary in the carrying values of assets and liabilities, reported expenses and balance sheet classifications, and 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 interim periods presented. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2009. These interim consolidated financial statements have been prepared using the same accounting policies and methods of application as the Company's consolidated financial statements for the year ended December 31, 2008, except for the changes in accounting policies described in note 2.

2. ADOPTION OF RECENT CANADIAN ACCOUNTING STANDARDS IN 2009

Goodwill, Intangible Assets and Financial Statement Concepts

The Canadian Institute of Chartered Accountants ("CICA") issued 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. Additionally, Section 1000 "Financial Statement Concepts" was also amended to provide consistency with this new standard. These new and amended standards were effective for the Company beginning on January 1, 2009. The adoption of these new standards did not have a material effect on the Company's interim consolidated financial statements.

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3. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	September 30 2009	December 31 2008
	\$	\$
Trade [net of allowance]	4,598,667	4,713,902
Holdback receivables	1,378,085	1,480,742
Unbilled revenue	508,123	1,505,803
SR&ED investment tax credits	121,447	26,447
Goods and services tax	48,8576	53,877
	6,655,179	7,780,771
<i>Aging</i>		
Current	1,655,017	695,029
31-60 days	903,663	1,478,752
61-90 days	73,336	715,688
Over 90 days	3,045,153	2,081,402
Allowance for doubtful accounts	(1,078,502)	(256,969)
	4,598,667	4,713,902

4. CAPITAL STOCK

[a] Debenture conversion and private placements

On July 27, 2009, the Company completed a private placement of 6,700,000 units at a price of \$0.25 per unit raising aggregate gross proceeds of \$1,675,000. Each unit consisted of one common share and one-half of a common share purchase warrant. Each common share purchase warrant is exercisable into one common share of the Company at \$0.35 per common share until July 27, 2013. Subsequently, on July 31, 2009, the Company completed a second private placement of 600,000 units at a price of \$0.25 per unit for gross proceeds of \$150,000. Each unit consists of one common share and one-half of a common share purchase warrant. Each share purchase warrant is exercisable to purchase one common share of the Company at a price of \$0.35 per common share until July 31, 2013. Proceeds from the private placements have been allocated to the common shares, and the costs associated with the transaction were allocated to and netted against share capital. The fair value of the warrants has been estimated using the Black-Scholes option pricing model, charged to share issue costs and credited to contributed surplus.

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Concurrent with the completion of the July 27, 2009 private placement, \$3,034,742 principal amount of convertible debentures previously issued by the Company were converted into 12,540,252 common shares of the Company at a conversion price of \$0.242 per common share.

	September 30, 2009		December 31, 2008	
	Number of shares #	Paid-up capital \$	Number of shares #	Paid-up capital \$
Common shares outstanding, beginning of period	30,982,858	56,733,075	30,982,858	56,733,075
Common shares converted from debentures	12,540,252	3,034,742	—	—
Common shares issued on private placement	7,300,000	1,825,000	—	—
Share issue costs	—	(560,808)	—	—
Common shares outstanding, end of period	50,823,110	61,032,009	30,982,858	56,733,075

[b] Options

The Company's Stock Option Plan is intended to attract, retain and motivate directors, officers and salaried employees. Stock 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 the period established by the Company, which is currently ten 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 a maximum of 10% of the common shares issued and outstanding. There were 2,314,174 options issued under the Company's Stock Option Plan as at September 30, 2009 [2008 – 2,667,674].

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September 30, 2009

The following table presents information concerning stock options granted by the Company:

	September 30, 2009		December 31, 2008	
	Number of options #	Weighted Average Exercise Price \$	Number of options #	Weighted average exercise price \$
EMPLOYEES AND DIRECTORS				
Outstanding, beginning of period	2,219,392	0.76	2,645,174	0.76
Granted during the period	700,000	0.27	320,000	1.04
Forfeited	(605,218)	0.68	(745,782)	0.86
Outstanding, end of period	2,314,174	0.64	2,219,392	0.76
Exercisable, end of period	1,533,174	0.54	1,270,892	0.49
OTHERS				
Outstanding, beginning of period				
Granted to debentureholders	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	3,149,886	1.04	3,055,104	1.14
Total exercisable, end of period	2,368,886	1.11	2,106,604	1.15

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Notes To Interim Consolidated Financial Statements

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September 30, 2009

The following table summarizes information about the Company's outstanding stock options issued to employees and directors as at September 30, 2009:

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	1,157,174	6.97	0.24	707,174	0.22
0.44 to 0.45	705,000	5.90	0.44	630,000	0.44
0.85 to 1.30	175,000	8.83	1.09	62,500	1.02
1.70 to 2.15	90,000	7.89	2.01	40,000	2.05
2.75	187,000	7.57	2.75	93,500	2.75
	2,314,174	6.87	0.64	1,533,174	0.54

The amounts 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 three and nine month periods ended September 30, 2009 were \$36,392 [2008 - \$33,005] and \$98,189 [2008 - \$123,005], respectively. The fair value for options granted before the filing of the prospectus for the Company's initial public offering was determined using the minimum value method. The fair value for options granted after the filing of the prospectus for the Company's initial public offering was determined using the Black-Scholes option pricing model under the following assumptions:

Expected life of employees options	6 years
Expected life of underwriter options	1 year
Expected life of debenture options	4.5 years
Expected dividends	Nil
Expected volatility	62%
Risk-free interest rate	0.18%-4.62%

The following assumptions were used for options granted prior to the filing of the prospectus for the Company's initial public offering:

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

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[c] Contributed surplus

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

	September 30, 2009 \$	December 31, 2008 \$
Balance, beginning of period	1,246,358	1,078,474
Stock-based compensation expense related to employee stock options	98,189	167,884
Warrants issued from private placements	426,750	—
Balance, end of period	1,771,297	1,246,358

[d] Share purchase warrants

Share purchase warrants were issued in conjunction with the private placements completed on July 27 and July 31, 2009. The terms and value of the warrants were determined by the Company's Board of Directors at the time of grant. The fair value for the 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 September 30, 2009, 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
300,000	\$0.35	July 31, 2013
3,650,000		

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

	September 30, 2009		December 31, 2008	
	Number of warrants #	Weighted average exercise price \$	Number of warrants #	Weighted average exercise price \$
Outstanding, beginning of period	—	—	—	—
Issued during the period	3,650,000	0.35	—	—
Outstanding, end of period	3,650,000	0.35	—	—

The issue of these warrants has been charged to share issue costs and credited to contributed surplus.

5. INVENTORIES AND DEPOSITS ON EQUIPMENT

Inventories and deposits on equipment consist of the following:

	September 30, 2009 \$	December 31, 2008 \$
Raw materials	374,765	694,176
Inventory held for resale	319,646	443,652
Deposits on equipment	—	488,359
	694,411	1,626,187

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

6. RESEARCH AND DEVELOPMENT RECOVERY

During the three-month period ended September 30, 2009, the Company recorded a recovery of \$nil [2008 - \$91,534] and for the nine months ended September 30, 2009 the Company recorded a recovery of \$95,000 [2008 - \$165,025] in each case in respect of tax incentives related to eligible expenditures for scientific research and experimental development. These amounts have been recorded as a reduction to expenses in the interim consolidated statement of loss, comprehensive loss and deficit.

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7. TERM LOAN AND LONG TERM PAYABLES

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. 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. As at September 30, 2009, KML was not in compliance with the terms of the term loan as the Company's current ratio was below the 1.1 to 1.0 level stipulated in the term loan agreement.

Subsequent to September 30, 2009, the Company received notification that the Ontario Ministry of Revenue had registered its statutory lien against the assets of KML under the *Personal Property Security Act* (Ontario) on account of \$633,978 of unremitted sales taxes owing, constituting a further event of default on the term loan. As a result of these events of default and a waiver from the lender not having been received, the full amount of \$529,767 owing on the term loan as at September 30, 2009 has been reclassified as a current liability.

The long term payable amounts relate to accrued interest of \$18,107 related to the convertible debentures, which are payable on their maturity dates and the long term portion of the unamortized rent reduction that was negotiated during the quarter ending June 30, 2009 of \$47,704.

8. CONVERTIBLE DEBENTURES

On February 23, 2009, the Company issued a secured convertible debenture in the principal amount of \$1,534,742 (the "Debenture"). The Debenture matures on August 23, 2010, bears interest at the rate of 10% per annum, payable on the earlier of maturity or conversion, and is convertible at the option of the holder into common shares of the Company at a conversion price of \$0.242 per share. The Debenture is secured by a general security interest in all of the assets of the Company, which ranks subsequent to the security interest granted by the Company to the non-bank lender which provided the term loan described above. The Debenture is required to be classified in its liability and equity components as determined by their fair value. The Company determined that the equity component was determinable by using the Black-Scholes valuation model to determine the fair value of the conversion option. The Company used a risk free interest rate of 0.88% and the other variables as noted in note 4. After the fair value of the conversion option was determined, the remaining amount was allocated to the debt component. The bifurcation resulted in \$133,180 of the Debenture being allocated to equity and the remaining \$1,401,562 being classified as a long term liability. The costs associated with the transaction were allocated to these components on a *pro rata* basis. The costs allocated to the equity component were \$3,261 and these costs have been netted against share capital. The costs allocated to the debt component were \$34,317 and these costs have been netted against the liability and will be amortized over the term of the Debenture. The effective interest rate based on the liability element is 17.8%.

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On May 22, 2009, the Company issued additional secured convertible debentures in an aggregate principal amount of \$1,500,000 (the "Additional Debentures"). The Additional Debentures mature on November 21, 2010, bear interest at the rate of 10% per annum, payable on the earlier of maturity or conversion, and are convertible at the option of the holder into common shares of the Company at a conversion price of \$0.242 per share. The Additional Debentures are secured by a general security interest in all of the assets of the Company, which ranks subsequent to the security interest granted to the non-bank lender which provided the term loan described above and *pari passu* with the security interest securing the Debenture. The Additional Debentures are required to be classified in their liability and equity components as determined by their fair value. The Company determined that the equity component was determinable by using the Black-Scholes valuation model to determine the fair value of the conversion option. The Company used a risk free interest rate of 0.72% and the other variables as noted in note 4. After the fair value of the conversion option was determined, the remaining amount was allocated to the debt component. The bifurcation resulted in \$328,512 of the Additional Debentures being allocated to equity and the remaining \$1,171,488 being classified as a long term liability. The costs associated with the transaction were allocated to these components on a *pro rata* basis. The costs allocated to the equity component were \$8,943 and these costs have been netted against share capital. The costs allocated to the debt component were \$35,303 and these costs have been netted against the liability and will be amortized over the term of the Additional Debentures. The effective interest rate based on the liability element is 28.28%.

On July 27, 2009, all debentures were converted into common shares (note 5).

9. RELATED PARTY TRANSACTIONS

Royalty revenues were earned in 2009 from a shareholder of the Company in connection with a license arrangement, which was signed prior to the party becoming a shareholder. The amount of revenue earned for the three month period ended September 30, 2009 was \$129,008 [2008 – \$76,365] and the amount of revenue earned for the nine month period ended September 30, 2009 was \$285,240 [2008 – \$1,149,989]. The amount due from this shareholder included in accounts receivable as at September 30, 2009 was \$36,083 [2008 - \$128,280].

Another shareholder has a business relationship as a contract customer of KML with regular credit terms. Revenues earned at the exchange amount agreed upon between the parties for the three months ended September 30, 2009 were \$214,150 [2008 – \$26,324] and for the nine months ended September 30, 2009 were \$275,022 [2008 – \$149,558]. The amount due from this shareholder included in accounts receivable as at September 30, 2009 was \$250,373 [2008 – \$14,981]. The Company also entered into a commercial property lease with this shareholder on December 21, 2006 for a period of ten years commencing January 1, 2007 for an annual minimum base rent of \$727,040. The Company is also liable for additional amounts relating to operating costs, utilities, and taxes.

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10. 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 technology solutions for residential and commercial markets. The licensing segment 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.

Segmented statement of loss for the three month period ended September 30, 2009 was:

	Licensing \$	Structural products \$	Total operations \$	Corporate \$	Consolidated \$
Revenues	440,636	3,157,614	3,598,250	—	3,598,250
Direct cost of revenues	128,145	2,443,294	2,571,439	—	2,571,439
Contribution margin	312,491	714,320	1,026,811	—	1,026,811
Expenses before the undernoted	1,439,974	775,001	2,214,975	502,239	2,717,214
Income (loss) before the following	(1,127,483)	(60,681)	(1,188,164)	(502,239)	(1,690,403)
Amortization	(103,565)	(213,444)	(317,009)	(3,081)	(320,090)
Foreign exchange gain (loss)	14,618	(2,982)	11,636	3,043	14,679
Asset disposal loss	(4,799)	(75,937)	(80,736)	—	(80,736)
Interest and minimum royalty accretion	(71,045)	(127,267)	(198,312)	101,711	(96,601)
Net loss for the period	(1,292,274)	(480,311)	(1,772,585)	(400,566)	(2,173,151)

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Segmented statement of income (loss) for the three month period ended September 30, 2008 was:

	Licensing \$	Structural Products \$	Total operations \$	Corporate \$	Consolidated \$
Revenues	2,746,520	2,555,043	5,301,563	—	5,301,563
Direct cost of revenues	1,402,877	2,231,295	3,634,172	—	3,634,172
Contribution margin	1,343,643	323,748	1,667,391	—	1,667,391
Expenses before the undernoted	1,039,200	1,018,505	2,057,705	1,086,492	3,144,197
Income (loss) before the following	304,443	(694,757)	(390,314)	(1,086,492)	(1,476,806)
Amortization	(89,092)	(194,748)	(283,840)	(4,336)	(288,176)
Foreign exchange gain (loss)	37,474	(3,779)	33,695	37	33,732
Interest and minimum royalty accretion	(113,666)	(80,019)	(193,685)	18,091	(175,594)
Net income (loss) for the period	139,159	(973,303)	(834,144)	(1,072,700)	(1,906,844)

Segmented statement of loss for the nine month period ended September 30, 2009 was:

	Licensing \$	Structural products \$	Total operations \$	Corporate \$	Consolidated \$
Revenues	3,471,805	8,063,686	11,535,491	—	11,535,491
Direct cost of revenues	1,673,920	6,409,520	8,083,440	—	8,083,440
Contribution margin	1,797,885	1,654,166	3,452,051	—	3,452,051
Expenses before the undernoted	2,722,066	2,574,141	5,296,207	1,376,359	6,672,566
Income (loss) before the following	(924,181)	(919,975)	(1,844,156)	(1,376,369)	(3,220,515)
Amortization	(281,724)	(636,114)	(917,838)	(9,243)	(927,081)
Foreign exchange gain (loss)	(13,163)	(2,582)	(15,745)	2,483	(13,262)
Asset disposal loss	(36,316)	(75,937)	(112,253)	—	(112,253)
Interest and minimum royalty accretion	(227,171)	(253,119)	(480,290)	16,061	(464,229)
Net loss for the period	(1,482,555)	(1,887,727)	(3,370,282)	(1,367,058)	(4,737,340)

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Segmented statement of loss for the nine month period ended September 30, 2008 was:

	Licensing \$	Structural Products \$	Total operations \$	Corporate \$	Consolidated \$
Revenues	7,311,009	9,498,735	16,809,744	—	16,809,744
Direct cost of revenues	3,223,480	8,468,404	11,691,884	—	11,691,884
Contribution margin	4,087,529	1,030,331	5,117,860	—	5,117,860
Expenses before the undernoted	3,945,272	3,146,857	7,092,129	2,452,621	9,544,750
Income (loss) before the following	142,257	(2116,526)	(1,974,269)	(2,452,621)	(4,426,890)
Amortization	(263,565)	(582,767)	(846,332)	(13,007)	(859,339)
Foreign exchange gain (loss)	27,942	(7,592)	20,350	1,170	21,520
Interest and minimum royalty accretion	(245,870)	(97,464)	(343,334)	72,054	(271,280)
Net loss for the period	(339,236)	(2,804,349)	(3,143,585)	(2,392,404)	(5,535,989)

Segmented balance sheet detail as at September 30, 2009 includes:

	Licensing \$	Structural products \$	Total operations \$	Corporate \$	Consolidated \$
Current assets	1,260,517	6,976,467	8,236,984	286,835	8,523,819
Property, plant and equipment	161,879	4,003,174	4,165,053	31,748	4,196,801
Intangible assets	1,943,866	—	1,943,866	—	1,943,866
Total Assets	3,366,262	10,979,641	14,345,903	318,583	14,664,486

Segmented balance sheet detail as at September 30, 2008 includes:

	Licensing \$	Structural products \$	Total operations \$	Corporate \$	Consolidated \$
Current assets	958,477	8,861,096	9,819,573	340,318	10,159,891
Long-term receivables	431,250	—	431,250	—	431,250
Property, plant and equipment	250,945	4,857,570	5,108,515	44,844	5,153,359
Intangible assets	2,097,048	—	2,097,048	—	2,097,048
Total Assets	3,737,720	13,718,666	17,456,386	385,162	17,841,548

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Geographical distribution of revenues is as follows:

Nine months ended September 30	Canada \$	U.S. \$	International \$	Consolidated \$
2009	8,071,921	365,296	3,098,274	11,535,491
2008	9,628,408	1,167,750	6,013,586	16,809,744

11. SUBSEQUENT EVENTS:

As at September 30, 2009, KML was not in compliance with the provisions of its term loan (note 7). Subsequent to September 30, 2009, the Company entered into discussions with the lender to address the defaults under the lending agreement, but has not resolved this matter to date.

Subsequent to September 30, 2009, the Company received notification that the Ontario Ministry of Revenue had registered its statutory lien against the assets of KML under the *Personal Property Security Act* (Ontario) on account of \$633,978 of unremitted sales taxes owing, constituting an event of default under the provisions of KML's term loan. The Company and each of its other subsidiaries are guarantors of the term loan and KML and the Company and its subsidiaries have not entered into a forbearance agreement with the lender.

Subsequent to September 30, 2009, the Company received notification that it is in default of its exclusive license agreement with Best Joist Technologies Inc. (the "Licensor"). The Company has entered into discussions with the Licensor to cure the default, but has not resolved the matter to date.

Subsequent to September 30, 2009, 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.

Subsequent to September 30, 2009, each of the Company's operating segments implemented short-term lay-offs of personnel as a cash preservation measure. Since September 30, 2009, a total of 47 personnel have been laid-off (36 in the structural products segment, 9 in the licensing segment and 2 in the corporate head office). The Company's ability to recall these personnel remains in significant doubt and is predicated on the successful resolution of a number of material uncertainties.

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On November 4, 2009, the Chief Executive Officer of the Company tendered his resignation effective November 13, 2009. On November 16, 2009, the Company appointed Mr. Richard Pope, a current director of the Company with more than 20 years of industry experience, as the Company's interim Chief Executive Officer.