



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Dated: August 1, 2007

*The following Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Genesis Worldwide Inc. ("Genesis" or the "Company") should be read in conjunction with the Company's unaudited interim consolidated financial statements and accompanying notes for the three and six months ended June 30, 2007 and 2006, as well as the annual MD&A and audited consolidated financial statements and accompanying notes for the years ended December 31, 2006, 2005 and 2004 contained in the Company's final prospectus ("Final Prospectus") filed with the Canadian securities regulatory authorities, which may be accessed at [www.sedar.com](http://www.sedar.com). The unaudited interim consolidated financial statements and accompanying notes for the three and six months ended June 30, 2007 and 2006 have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All dollar amounts are in Canadian dollars unless stated otherwise. The information contained herein is dated as of August 1, 2007, and is current to that date, unless otherwise stated. The Company's fiscal year commences January 1<sup>st</sup> of each year and ends on December 31<sup>st</sup> of that year.*

*Further information regarding the Company, and its business and operations, may be obtained from the Company's continuous disclosure documents filed from time-to-time with the Canadian securities regulatory authorities. These continuous disclosure documents are available through the Company's website at [www.genesisworldwide.com](http://www.genesisworldwide.com) or through the SEDAR website maintained by the Canadian securities regulatory authorities, which can be accessed at [www.sedar.com](http://www.sedar.com).*

### **Caution Regarding Forward-Looking Statements**

This MD&A contains certain forward-looking statements, which reflect management's expectations regarding the Company's future growth, results of operations, performance and business prospects and opportunities. Wherever possible, words such as "may", "would", "could", "will", "anticipate", "believe", "plan", "expect", "intend", "estimate", "aim", "endeavour", and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs with respect to future events and are based on information currently available to management of the Company. Forward-looking statements involve significant risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, without limitation, those listed in the "Risk Factors" section contained in the Company's Final Prospectus. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievements may vary materially from those expressed or implied by the forward-looking statements contained in this MD&A. Although the forward-looking statements contained in this MD&A are based upon what management currently believes to be reasonable assumptions, the Company cannot assure readers that actual results, performance or achievements will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this MD&A and the Company assumes no obligation to update or release any revisions to these forward-looking statements to reflect events, circumstances or the occurrence of unanticipated events, or if management's projections, beliefs or opinions change after the date of this MD&A.

### **Selected Financial Information**

The following tables set out selected consolidated financial information for the periods indicated. The selected financial information set out below as at, and for the three and six-month periods ended June 30, 2007 and 2006 respectively has been derived from the unaudited consolidated interim financial statements and accompanying notes for the three and six-month periods ended June 30, 2007 and 2006, as well as the

December 31, 2006 annual audited consolidated financial statements. Each investor should read the following information in conjunction with those statements and the notes thereto. The financial information for the three and six months ended June 30, 2007 and 2006, and for the year ended December 31, 2006, has been prepared in accordance with Canadian GAAP.

**Consolidated Statements of Loss, Comprehensive Loss and Deficit**

(in thousands of dollars, except share data)	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Revenues				
Licensing	\$ 2,678	\$ 20	\$ 3,637	\$ 183
Structural Products	2,340	3,392	5,371	7,916
Total revenues	5,018	3,412	9,008	8,099
Direct cost of revenues				
Licensing	1,555	10	2,080	74
Structural Products	1,965	3,280	4,055	7,655
Total direct cost of revenues	3,520	3,290	6,135	7,729
	1,498	122	2,873	370
Expenses				
Research and development (recovery)	(120)	269	111	507
Selling and marketing	440	289	826	535
Engineering and project management	472	444	858	719
General and administration	809	1,042	1,828	1,636
Occupancy	323	281	627	604
Plant commissioning and restructuring costs	527	--	749	--
	2,451	2,325	4,999	4,001
Loss before other expenses	(953)	(2,203)	(2,126)	(3,631)
Amortization	266	225	511	413
Debenture and loan interest expense	470	22	1,088	17
Minimum royalty accretion	74	73	148	146
Foreign exchange gain	(36)	(44)	(49)	(17)
	774	276	1,698	559
<b>Net loss and comprehensive loss for the period</b>	<b>(1,727)</b>	<b>(2,479)</b>	<b>(3,824)</b>	<b>(4,190)</b>
Net loss per share – basic and diluted	(0.08)	(0.12)	(0.18)	(0.20)
Weighted average number of common shares outstanding – basic and diluted	20,982,858	20,982,858	20,982,858	20,982,858

**Consolidated Balance Sheet Data**

(in thousands)	As at June 30, 2007	As at Dec. 31, 2006
Cash and cash equivalents	\$ 16	\$ 1,011
Total assets	15,995	13,069
Total liabilities	19,054	12,249
Shareholders' equity (deficiency)	(3,059)	820

## Overview

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 “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 structural products division. 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.

## Overall Performance

During the second quarter of 2007, the Company continued the execution of its dual strategies: (i) to expand its licensing business; and (ii) to expand and improve its structural products offering in the Greater Toronto Area (“GTA”) marketplace, through its wholly owned subsidiary, KML Engineered Homes Ltd. (“KML”).

The Company’s licensing activities during the second quarter of 2007 included shipping of the industrial equipment to both its Spain and California licensees. Coupled with the previous shipment of equipment to its licensee in the first quarter of 2007, the Company now has three licensees fully equipped and ready to service their local markets. The Company expects these licensees to begin supplying the Genesis Solution to their markets by the end of this calendar year. During the second quarter, the Company also executed a licensing agreement with a licensee in Dubai, which will service the construction market in Dubai and the United Arab Emirates. The Company expects this licensee will be fully operational and servicing its market by the end of 2007 and in accordance with its accounting policies will recognize the revenue from this license in Q3 and Q4 of 2007. Licensing activities continue aggressively with the target of completing four licensing agreements per year. During this quarter, the Company earned royalty income from two of its licensees and royalty income should continue to grow each quarter as more licensees become operational. Finally, the Company’s licensee in Alabama decided to discontinue its license operations and the Company is actively working to replace this licensee with another.

During the second quarter of 2007, the Company relocated its manufacturing operations from Cambridge, Ontario to a new facility located in Vaughan, Ontario. This planned relocation accomplished two primary goals: (i) having a facility that can be showcased to potential licensees; and (ii) capitalize on the technological improvements that the Genesis Solution has undergone in the past several years. The next step is the upgrading of the current manufacturing equipment, along with the implementation of the Company’s proprietary coil-to-panel (“CTP”) technology platform. A capital investment of approximately \$4.0 million will be required for this implementation and the Company expects this implementation to be completed by February 28, 2008. Approximately \$375,000 has been spent to date.

The relocation of the manufacturing facility resulted in reduced manufacturing activities during the second quarter of 2007. For a six-week period, while the manufacturing equipment was being installed and new staff was trained, no manufacturing activities occurred, resulting in a decrease in structural products revenue for the quarter. The new manufacturing facility is now fully operational and producing at expected levels.

Contribution margin from the structural products division improved to 24% during the first six months of 2007, compared to 3% during the same period last year.

On July 3, 2007, the Company completed the work on an initial public offering (“IPO”) and its common shares began trading on both the Alternative Investment Market of the London Stock Exchange (“AIM”), and on the Toronto Stock Exchange (“TSX”). The Company issued 10,000,000 additional common shares, raising gross proceeds of \$20,000,000, and net proceeds of approximately \$14,850,000.

Geographically, the Company's structural products revenues are earned primarily in Ontario, Canada where the vast majority of its research and development activities take place. While the Company's base is Canada, its focus for licensing activities is international. In addition to Canada, the Company divides the international markets into three sub-segments in order to manage and focus its marketing efforts: United States; Europe, the Middle East and Africa ("EMEA"); and the rest of the world ("ROW"). The following table highlights the Company's revenues for these geographical regions:

(in thousands of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	2007	2006
Canada	\$ 2,433	\$ 3,392	\$ 5,465	\$ 7,916
United States	1,779	20	1,976	183
EMEA	784	--	1,500	--
ROW	22	--	67	--
	<u>\$ 5,018</u>	<u>\$ 3,412</u>	<u>\$ 9,008</u>	<u>\$ 8,099</u>

The Company expects its revenue mix to change over the next several years with licensing revenues accounting for a larger proportion of overall revenue. The Company intends to use part of the proceeds from the IPO to continue to accelerate its efforts to add new licensees in various regions of the world, with a particular emphasis on North America, Europe, and the Middle East. Investments in human resources and marketing activities such as trade show participation are planned to support this effort.

### Revenue and Expenses

Direct cost of revenues for structural products consist of direct labour, direct material, selected plant overheads, shipping and installation costs. For licensing revenues, cost of revenues consists of the direct cost of the industrial manufacturing equipment.

Research and development costs consist primarily of salaries and other personnel costs, as well as certification and materials costs, including prototypes and testing, associated with new product introductions. This is a significant activity and the Company intends to use part of the proceeds from the IPO to continue its efforts in research and development. Any actual and estimated recoveries from the filing of Scientific Research and Experimental Development ("SR&ED") tax claims made to the Canadian and Ontario governments are netted against these expenses.

Selling and marketing costs consist primarily of salaries, commissions and other personnel costs, including travel, participation in trade shows and conferences and other marketing activities.

Engineering and project management expense consists primarily of salaries and other personnel costs of the Company's engineering and project management team.

General and administration expense relates to general personnel costs, professional fees relating to tax, legal and accounting reviews, as well as bad debt costs. Bad debt expense consists of the charge taken in the year a receivable is deemed uncollectible by the Company and will include the expected legal costs incurred to collect such debts. Any recoveries are netted against these costs in the year they are collected.

Occupancy costs consist of rent, utilities, property insurance and municipal taxes for rental properties.

Plant commissioning and restructuring costs consist of costs associated with the relocation and set-up of the former KML operation in Cambridge, Ontario, and Light Steel Joist Solutions Inc., the Company's i-SPAN operation in Woodbridge, Ontario, to the Company's new facility located in Vaughan, Ontario. These costs include severance costs, moving costs, duplicate rent payments, set-up costs, and rental penalties.

Amortization costs relate to property, plant and equipment and intangible assets.

Foreign exchange gains relate to the positive or negative realization in foreign currency transactions between the time the revenue is booked or expenses are incurred and the actual cash is received or expended.

Interest expense relates to the cost of carrying debt net of any interest earned on cash deposits.

Minimum royalty accretion is the imputed interest costs related to the capitalization of the minimum royalty payments to be made under the Company's agreement with Best Joist Inc. ("BJI") from which it licenses certain technologies for use in i-SPAN in the Canadian and United States markets.

The majority of the Company's business is transacted in U.S. dollars and Canadian dollars. The Company expects the majority of its licensing revenues will be transacted in U.S. dollars. Since the headquarters of the Company are located in Canada, the majority of the Company's operating expenses are denominated in Canadian dollars. As such, the Company is exposed to the risk of fluctuation in the U.S.-to-Canadian dollar exchange rate.

### **Liquidity and Capital Resources**

Since its incorporation in July 2003, the Company has funded its operations and capital resources requirements through the issuance of equity securities and various types of debt financings. The Company issued an aggregate of \$6,000,000 in debentures (the "Debentures") to two shareholders in December 2006. Of the \$6,000,000 available from the issuance of the Debentures, \$4,000,000 was received in 2006 and was used to pay off existing bank indebtedness of \$2,034,410, with the remainder used for general corporate purposes. The remaining \$2,000,000 from the issuance of the Debentures was received in 2007 and used for general corporate purposes. The Debentures were repaid in full on July 6, 2007 from the net proceeds of the IPO. As of August 1, 2007, the Company had a total of 30,982,858 common shares issued and outstanding.

The Company has a history of operating losses and incurred losses of \$3,825,947, for the first half of 2007 and \$4,191,162 for the same period in 2006. For the fiscal year ended December 31, 2006, the Company incurred losses of \$7,459,612. The Company had negative cash flows from operating activities of \$2,233,475 in the first half of 2007 and negative cash flows from operating activities of \$4,403,269 for the same period in 2006. For the year ended December 31, 2006, negative cash flows from operations were \$7,263,869. The accumulated deficit as at June 30, 2007 was \$45,359,753. The Company's ability to continue as a going concern in the long-term is dependent on its ability to generate positive cash flows from operations of the business, and achieve future profitable operations through the successful execution of its strategy, none of which is assured. The Company believes that the proceeds from the IPO, together with the anticipated revenues from its licensing arrangements and structural products, will be sufficient to enable the Company to fund operating activities and capital expenditures for the next 12 months.

The table below outlines selected balance sheet accounts and a summary of cash inflows and outflows by activities:

**Selected Balance Sheet and Cash Flow Data**

	<b>June 30, 2007</b>	<b>Dec. 31, 2006</b>
Cash and cash equivalents	\$ 16,161	\$ 1,011,386
Working capital	(4,014,256)	368,848
Long-term assets	8,921,541	5,190,756
Long-term liabilities	7,966,762	4,739,747
Working capital ratio	0.64 to 1	1.05 to 1
 Cash inflows and (outflows) by activities		
Operating activities	\$ (2,233,475)	\$ (7,263,869)
Investing activities	(761,750)	(1,281,857)
Financing activities	2,000,000	1,722,225
<b>Net cash inflows (outflows)</b>	<b>(995,225)</b>	<b>(6,823,501)</b>

***Cash and Cash Equivalents***

As at June 30, 2007, the Company had \$16,161 in cash and cash equivalents, compared to \$1,011,386 of cash as at December 31, 2006. This decrease in cash of \$995,225 was attributed to \$2,233,475 of cash used in operations, \$761,750 used in investing activities, offset by \$2,000,000 obtained from financing activities. As of August 1, 2007, the Company had an opening net cash balance of \$10,893,455.

As at December 31, 2006, the Company had \$1,011,386 in cash and cash equivalents, representing a decrease in cash of \$6,823,501 from the beginning of the fiscal year. This decrease in cash was due primarily to the \$7,263,869 of cash used in operating activities, the \$1,281,857 of cash used in investing activities and offset by the net infusion of \$1,722,225 in cash from the Debentures issued in December 2006.

***Working Capital***

Working capital is calculated as the difference between the Company's current assets and current liabilities. The Company's working capital balance decreased by \$4,383,104 from December 31, 2006 to June 30, 2007. This decrease was due primarily to the accrual of \$3,140,066 relating to the costs of the IPO, which is recognized as a current liability, while the offset was recognized as a long-term asset since the amount will be netted against the total IPO proceeds. Without this, the working capital would have decreased by \$1,243,038, which was the result of working capital used in operating activities and investing activities, offset by proceeds from the Debentures.

***Cash Used in Operating Activities***

The Company continues to fund its operating activities in addition to its ongoing research and development activities. During the first half of 2007, \$2,233,475 was spent on operating activities and \$761,750 was spent on acquisition of plant and equipment, deferred IPO costs and royalties, offset by Debenture proceeds of \$2,000,000 and a reduction in cash position at June 30, 2007 of \$995,225.

Over the past three and a half years, cash has been used in operations primarily to fund the Company's ongoing research and development activities, which consists primarily of the development of software applications, industrial technologies, development of new light steel products, and the application of these industrial technologies to construction projects. As well, the Company has been increasing its sales and marketing activities to stimulate the growth of the licensing of its technologies.

***Cash Used in Investing Activities***

During the first half of 2007, the Company spent \$53,275 on deferred costs of the IPO, which closed on July 3, 2007. A total of \$548,479 was spent on new property, plant and equipment at the Company's new facility in Vaughan, Ontario, and \$160,000 was paid for minimum royalty obligations under the license agreement with BJI for the i-SPAN technology.

***Cash Provided by Financing Activities***

During the first half of 2007, the Company drew down on the remaining \$2,000,000 available under the Debentures.

Over the past two years, the Company has obtained financing from three primary sources: (i) issuance of equity, (ii) issuance of Debentures; and (iii) a bank line of credit. In 2006, the Company received \$4,000,000 of the \$6,000,000 available pursuant to the issuance of the Debentures to repay its bank indebtedness of \$2,034,410 and for general corporate purposes. Currently, the Company does not have a bank line of credit.

On July 3, 2007, pursuant to the IPO, the Company issued 10,000,000 additional common shares for net proceeds of approximately \$14,850,000. Out of the net proceeds, \$6,000,000 was used to repay the Debentures on July 6, 2007, and the remaining balance of approximately \$8,850,000 will be used for financing planned capital expenditures of approximately \$4,000,000, with the remainder to be used for general corporate purposes.

***Contractual Obligations***

The Company has entered into two long-term contracts in the ordinary course of business which are reflected as contractual obligations.

The first commitment is for the new facility located in Vaughan, Ontario, which will showcase the Company's new CTP and CTJ industrial technologies. Muzzo Brothers Group Inc., an affiliate of a beneficial shareholder of the Company, Zuzum Acquisition Inc., as landlord, and the Company, as tenant, entered into a lease dated December 21, 2006 for premises located at 10877 Keele Street, Vaughan, Ontario. The lease is for an initial term of 10 years commencing on January 31, 2007 and expires on December 31, 2016, but may be renewed for a further 10 years with prior written notice. Annual basic rent of \$727,040 is payable monthly. The Company is also liable for additional rent for operating costs, utilities and taxes.

The second commitment relates to the technology licensing and ongoing development of i-SPAN. Pursuant to a license agreement entered into on November 10, 2004 between the Company and BJI, the Company is obligated to make quarterly royalty payments of \$0.02 per pound of joist system produced, with a minimum royalty of \$80,000 per quarter until August 2008 and \$150,000 per quarter from August 2008 until November 2011. Until November 2006, these minimum royalty payments were reduced by 50%. The agreement may be terminated by BJI on 10 days' notice if the Company fails to make the applicable payments.

The Company has capitalized the present value of these future minimum royalty payments as an intangible asset and has recognized the future liability as both current and long-term liabilities as minimum royalty payment obligation.

The following table summarizes the Company's contractual commitments at August 1, 2007:

	Years			Thereafter	Total
	<1	1-3	3-5		
Property leases	\$ 478,847	\$ 2,090,550	\$ 1,947,143	\$ 4,816,639	\$ 9,333,179
Equipment leases	59,327	88,499	8,405	--	156,231
Minimum royalty payments	160,000	1,060,000	1,200,000	--	2,420,000
<b>Total</b>	<b>\$ 698,174</b>	<b>\$ 3,239,049</b>	<b>\$ 3,155,548</b>	<b>\$ 4,816,639</b>	<b>\$11,909,410</b>

NOTE: The \$6,000,000 of Debentures outstanding as of June 30, 2007 were repaid on July 6, 2007 from the proceeds of the IPO.

### ***Contingencies***

In the normal course of business, the Company is subject to loss contingencies, such as claims and assessments arising from litigation and other legal proceedings, contractual indemnities, product and environmental liabilities, and tax matters. The Company is required to accrue for such loss contingencies if it is probable that the outcome will be unfavourable, and if the amount of the loss can be reasonably estimated. The Company evaluates its exposure to loss based on the progress of each contingency, experience in similar contingencies and, if necessary, consultation with external legal counsel. The Company re-evaluates all contingencies as additional information becomes available.

### **Critical Accounting Policies and Estimates**

There were no changes to the Company's critical accounting policies and estimates from the December 31, 2006 financial statements.

### **Adoption of Recent Canadian Accounting Pronouncements in 2007**

#### ***Accounting Changes***

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

#### ***Other Comprehensive Income and Financial Instruments***

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

#### **Section 1530, Other Comprehensive Income**

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

Section 3855, *Financial Instruments – Recognition and Measurement*

Section 3861, *Financial Instruments – Disclosure and Presentation*

***Financial Assets and Financial Liabilities***

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

***Loans and Receivables***

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

***Other Liabilities***

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

***Transaction Costs***

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

***Determination of Fair Value***

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

***Classification of Financial Instruments***

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

- Cash and cash equivalents are classified as held-for-trading. Changes in fair value for the period are recorded in earnings as interest income.
- Accounts receivable are classified as loans and receivables.

- Bank indebtedness, accounts payable and accrued liabilities, and warrants liability are accounted for as other liabilities and initially measured at fair value, and Debentures and minimum royalty payment obligations are accounted for as other liabilities at amortized cost.

On January 1, 2007, the Company made the following adjustments to its interim consolidated balance sheets after the adoption of the new requirements for financial instruments:

	<b>As at Jan. 1, 2007</b>
Accounts payable and accrued liabilities	\$ (120,000)
Debentures due to related parties	6,650
<b>Deficit</b>	<b>(113,450)</b>

Deferred financing costs have been reclassified on a comparative basis as a reduction in Debentures due to related parties.

The impact of these changes on the interim consolidated statements of loss, comprehensive loss and deficit increases net loss as follows:

	<b>Six Months Ended June 30, 2007</b>
Debenture and loan interest expense	\$ 714,118
<b>Net loss</b>	<b>(714,118)</b>

### **Comparison of the Three Months Ended June 30, 2007 and June 30, 2006**

#### ***Revenues***

##### **(a) Licensing**

Licensing revenue for the quarter ended June 30, 2007 increased 13,065% to \$2,677,846, compared to \$20,340 for the same period in 2006. Licensing revenue reflects the shipment of industrial equipment to licensees in both Spain and California, as well as the license fee paid by the licensee in California. During the second quarter of 2007, the Company recognized royalty fees of \$43,120 from licensing activities.

##### **(b) Structural Products**

Structural products revenue for the second quarter of 2007 decreased by 31% to \$2,340,418, compared to \$3,391,666 for the same quarter last year. During the second quarter of 2007, the Company relocated its manufacturing facilities from Cambridge, Ontario to Vaughan, Ontario, resulting in a six-week period during which time no manufacturing activities took place. By the end of June 2007, the manufacturing operations were fully functional and generating at expected levels.

#### ***Direct Cost of Revenues***

##### **(a) Licensing**

Direct cost of revenues for licensing for the second quarter of 2007 were \$1,555,272, or 58% of the licensing division's revenue, compared to \$10,412, or 51% of this division's revenue for the same period in 2006. The direct cost of revenues for licensing relates to the cost of the industrial equipment shipped to licensees. There are no direct cost of revenues for license fees and royalties.

##### **(b) Structural Products**

Direct cost of revenues for structural products were \$1,964,659 for the quarter ended June 30, 2007, or 84% of the structural products division's revenue, compared to \$3,279,594, or 97% of this division's revenue for the second quarter of 2006. This significant improvement in direct cost of revenues is in line with the

Company's expectation for the structural products division and is a direct result of improvements made in this division, and through the execution of higher margin projects.

#### ***Research and Development***

Research and development recovery for the second quarter of 2007 was \$120,023, compared to an expense of \$269,141 for the same quarter last year. The change of \$389,164 resulted from the receipt of the Company's 2004 SR&ED tax claim, plus an estimate for the 2005 SR&ED tax claim, with both claims totalling \$418,161 after professional fees. This is the first time the Company has recorded any recovery for SR&ED.

#### ***Sales and Marketing***

Sales and marketing expenses were \$439,953 for the quarter ended June 30, 2007, compared to \$289,495 for the second quarter of 2006. This increase of \$150,458 is due to the increase in staffing levels for both licensing and structural sales, as well as increased participation in international trade shows. The Company's strategy is to increase sales activity, particularly with licensees around the world, and the increase in expense is in line with the Company's strategy.

#### ***Engineering and Project Management***

Engineering and project management expense for the second quarter of 2007 was \$471,619, compared to \$444,249 for the same quarter last year. This increase of \$27,370, or 6%, relates to an increase in staffing levels to meet the anticipated demand from licensees and the structural products division.

#### ***General and Administrative***

General and administrative expense was \$808,650 for the second quarter of 2007, compared to \$1,042,347 for the same period a year ago. This decrease of \$233,697, or 22%, was due to a decrease in bad debt expense of \$412,171 from 2006. The remaining increase in expenses of \$178,474 relates primarily to increased staffing levels and professional fees.

#### ***Occupancy***

Occupancy expense for the second quarter of 2007 was \$323,957, compared to \$280,530 for the same quarter last year. This increase of \$43,427 relates to the increase in rent costs of the new facility for the i-SPAN production portion, plus the increase in rent costs for the structural products division for June 2007. The rent costs for the new facility for April and May 2007 for the structural products division was charged to plant commissioning costs as the new facility was commissioned in June 2007.

#### ***Plant Commissioning and Restructuring Costs***

In the second quarter of 2007, plant commissioning costs were \$526,706 and there was no expense in the same quarter last year. This cost comprises severance costs of \$233,887, rental costs of \$75,087 relating to the penalty for the lease of the facility in Cambridge, Ontario, moving costs of \$105,063, rental costs for April and May 2007 for the new facility before it was commissioned of \$92,304, and set-up costs of \$20,365. The plant was fully commissioned by the end of the second quarter of 2007.

#### ***Amortization***

Amortization expense was \$266,293 for the second quarter of 2007, compared to \$225,107 for the same period last year. This increase of \$41,187 relates to the amortization of additions to property, plant and equipment.

#### ***Foreign Exchange Gain***

The Company had a foreign exchange gain of \$36,413 in the second quarter of 2007, compared to \$44,310 for the same quarter a year ago. This is attributable to the fluctuating value of the Canadian dollar vis-à-vis the U.S. dollar.

***Bank Interest Expense***

Bank interest expense for the second quarter of 2007 was nil, compared to \$22,163 for the second quarter of 2006. During the second quarter of 2006, the Company was using a bank line of credit and no bank line of credit was used in 2007.

***Minimum Royalty Accretion***

The expense for minimum royalty accretion for the quarter ended June 30, 2007 was \$74,145, compared to \$73,236 for the same quarter last year.

***Debenture and Loan Interest Expense***

On January 1, 2007, the Company adopted the CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. As a result of this adoption, the standard requires that the Company retroactively, without restatement, amortize certain financing costs over the expected life of such financing. The expenses in question include deferred financing costs, the penalty due on prepayment of the Debentures, and the Debenture accretion expense. For the second quarter of 2007, these costs totalled \$470,614, including interest expense of \$171,018, for a net cost of \$299,596. The Debentures were repaid in full on July 6, 2007.

**Comparison of the Six Months Ended June 30, 2007 and June 30, 2006**

***Revenues***

(a) Licensing

Licensing revenue for the six months ended June 30, 2007 increased 1,891% to \$3,636,624, compared to \$182,642 for the same period in 2006. During the first half of 2007, the Company delivered industrial equipment to licensees in both Spain and California, recognized the license fee for California, earned royalty income of \$84,832 from two licensees, and earned revenue from other services provided to licensees. During the same period last year, no revenues were recorded for industrial equipment sales, licensee fees or royalty income. No revenue from the licensee fee for Spain has been recorded to this date as it is being paid over a four-year period and will be recognized as revenue upon receipt of payment. Revenue from licensee activities is meeting the Company's expectations.

(b) Structural Products

Structural products revenue for the first half of 2007 decreased by 32% to \$5,370,938, compared to \$7,916,498 for the same period last year. This decrease relates directly to the relocation of the Company's manufacturing facilities from Cambridge, Ontario to Vaughan, Ontario, resulting in a six-week period during which time no manufacturing activities took place. Also, fewer light steel panels were produced during the first quarter of 2007, compared to the first quarter of 2006. As of June 30, 2007, manufacturing activities in the Vaughan facility were back to normal levels and the Company expects this activity to increase over the next several months.

***Direct Cost of Revenues***

(a) Licensing

Direct cost of revenues for licensing for the first half of 2007 were \$2,079,943, or 57% of the licensing division's revenue, compared to \$73,841, or 40% of this division's revenue for the same period in 2006. The Company's mix of sales amongst license fees, industrial equipment, royalty income, and services income within any one time frame will change the overall percentage of direct cost of revenue for licensing.

(b) Structural Products

Direct cost of revenues for structural products were \$4,055,476 for the first half of 2007, or 75% of the licensing division's revenue, compared to \$7,655,106, or 97% of this division's revenue for the same period a year ago. This represents a significant improvement in the cost of revenues for structural products and is a direct result of improvements made in the operations of this division, along with the Company's plan to

improve the profitability of the structural products division on a going-forward basis through the execution of higher margin projects.

***Research and Development***

Research and development expenses for the first half of 2007 were \$111,128, compared to \$506,867 for the same period last year. The reduction of \$395,739 relates directly to the recovery of \$418,161 for SR&ED tax claims for 2004 and 2005 that the Company has recorded in 2007.

***Sales and Marketing***

Sales and marketing expenses were \$825,924 for the six months ended June 30, 2007, compared to \$534,645 for the first half of 2006. This increase of \$291,279 is a result of the Company's strategy of increasing staff levels in both the licensing and structural products divisions, along with increased participation in international trade shows, compared to the same period last year. The Company expects this expense to increase further during the remainder of 2007 as the Company executes its strategy of increasing staff levels in the sales and marketing functions, particularly in the licensing division.

***Engineering and Project Management***

Engineering and project management expense for the first half of 2007 was \$857,798, compared to \$719,343 for the same period last year. This increase of \$138,455 relates to an increase in staffing levels to meet the anticipated demand from licensees and the structural products division, along with increased compensation paid to professional staff to remain competitive and retain trained staff.

***General and Administrative***

General and administrative expense was \$1,827,717 for the first six months of 2007, compared to \$1,636,441 for the same period a year ago. This increase of \$191,276 consists of a reduction in bad debt expense of \$412,171 from 2006, and an increase in other expenses of \$220,895. The increased expenses relate primarily to increased staffing levels and increased professional fees incurred.

***Occupancy***

Occupancy expense for the first half of 2007 was \$627,540, compared to \$604,440 for the first half of 2006. This increase of \$23,100 relates to the move to the new facilities in Vaughan, Ontario for both KML and i-SPAN, net of the cost charged to plant commissioning as explained in "Plant Commissioning and Restructuring Costs".

***Plant Commissioning and Restructuring Costs***

During the first half of 2007, the Company consolidated its two manufacturing facilities located in Cambridge, Ontario and Woodbridge, Ontario, to a new facility located in Vaughan, Ontario. Costs charged to plant commissioning and restructuring for the first half of 2007 were \$749,297, and includes \$233,887 for severance costs, \$75,087 for rent penalties on the old properties, moving costs of \$105,646, rental costs of \$314,312 for the new facilities before they were commissioned, and set-up costs of \$20,365. The plant in Vaughan was fully commissioned by the end of June 2007.

***Amortization***

Amortization expense was \$510,886 for the first six months of 2007, compared to \$413,370 for the same period last year. This increase of \$97,516 relates to the amortization of additional property, plant and equipment purchased over the past year.

***Foreign Exchange Gain***

The Company had a foreign exchange gain of \$49,620 for the first half of 2007, compared to \$17,510 for the same period a year ago; all of which was attributable to the fluctuating value of the Canadian dollar vis-à-vis the U.S. dollar.

***Bank Interest Expense***

Bank interest expense for the first six months of 2007 was nil, compared to \$17,287 for the first six months of 2006. During the first half of 2006, the Company was using a bank line of credit and no bank line of credit was used in 2007.

***Minimum Royalty Accretion***

The expense for minimum royalty accretion for the first six months of 2007 was \$148,472, compared to \$146,472 for the first six months of 2006.

***Debenture and Loan Interest Expense***

On January 1, 2007, the Company adopted the CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. As a result of this adoption, the standard requires that the Company retroactively, without restatement, amortize certain financing costs over the expected life of such financing. The expenses in question include deferred financing costs, the penalty due on prepayment of the Debentures, and the Debenture accretion expense. For the first half of 2007, these costs totalled \$1,088,948, including interest expense of \$312,842, for a net cost of \$776,106. There were no similar expenses in the same period last year. The Debentures were repaid in full on July 6, 2007.

**Transactions with Related Parties**

***Debentures***

On December 4, 2006, the Company borrowed \$4,000,000 of the available \$6,000,000 by way of Debentures issued to 2007129 Ontario Inc. and Jetport Inc., both shareholders of the Company. The Company subsequently increased its borrowings to \$6,000,000 pursuant to the Debentures. These Debentures were repaid on July 6, 2007 from the net proceeds of the IPO.

In connection with the issuance of the Debentures, Genesis also issued to the Debenture holders special warrants to acquire common share purchase warrants of the Company at no additional consideration. These special warrants are the only warrants issued by the Company. The special warrants entitle the Debenture holders to acquire, through the exercise of the underlying common share purchase warrants, the number of common shares equal to \$1,800,000, or 30% of the principal amount of the Debentures outstanding, divided by the exercise price of \$2.15385, determined in accordance with the terms of the common share purchase warrants, for a total of 835,712 Common Shares. Any unexercised common share purchase warrants shall expire on the earlier of: (i) a date that is five years from the Closing Date, and (ii) immediately prior to a change of control of the Company. Both special warrant holders gave the Company notice of exercise of their special warrants, with effect as of the business day immediately following the business day on which the Company received a receipt for the final prospectus in connection with the IPO. The Company therefore issued common share purchase warrants on June 27, 2007.

Expenses related to this financing at the exchange amount between the parties comprise interest due to lenders at a rate of 12.75% per annum, payable monthly, issue costs and fees of \$243,365, and warrants liability of \$600,000.

***Licensing Arrangement***

USG, parent of CGC Inc., a shareholder of the Company, entered into a license arrangement with the Company. USG built structures using the Genesis Solution until June 2007, and is no longer using the Genesis Solution. Revenues earned in the first half of 2007 were \$198,969, and \$1,956,202 for 2006 (\$981,360 of which constituted a one-time payment for the purchase of equipment).

***Commercial Contract***

Zuzum Acquisition Inc., a beneficial shareholder of the Company, is an affiliate of Muzzo Brothers Group Inc., which is a contract customer of the Company with regular credit terms. Revenues earned during the

first half of 2007 were \$391,591, and \$746,282 for the first half of 2006. The amount included in accounts receivable as of June 30, 2007 was \$263,215, and \$771,687 at December 31, 2006.

***Lease***

Muzzo Brothers Group Inc., an affiliate of a beneficial shareholder of the Company, Zuzum Acquisition Inc., as landlord, and the Company, as tenant, entered into a lease dated December 21, 2006 for premises located at 10877 Keele Street, Vaughan, Ontario. The lease is for an initial term of 10 years commencing on January 31, 2007 and expires on December 31, 2016, but may be renewed for a further 10 years with prior written notice. Annual basic rent of \$727,040 is payable monthly. The Company is also liable for additional rent for operating costs, utilities and taxes.