

**GLOBAL RAILWAY INDUSTRIES LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005 AND 2004**



**KPMG** LLP  
**Chartered Accountants**  
1200 205 - 5 Avenue SW  
Calgary AB T2P 4B9

Telephone (403) 691-8000  
Telefax (403) 691-8008  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## **AUDITORS' REPORT**

To the Shareholders of  
Global Railway Industries Ltd.

We have audited the consolidated balance sheets of Global Railway Industries Ltd. as at December 31, 2005 and 2004 and the consolidated statements of earnings (loss) and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

Chartered Accountants

Calgary, Canada  
March 21, 2006

**GLOBAL RAILWAY INDUSTRIES LTD.**

**CONSOLIDATED BALANCE SHEETS**

DECEMBER 31,	2005	2004 Restated (Note 3)
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 564,237	\$ 1,000,981
Accounts receivable	3,835,534	3,621,298
Inventories (Note 6)	7,286,468	7,189,014
Prepaid expenses	95,315	292,060
Assets of discontinued operations (Note 3)	9,310,574	6,790,975
Income taxes recoverable	210,864	-
	<hr/> 21,302,992	<hr/> 18,894,328
ASSETS OF DISCONTINUED OPERATIONS (Note 3)	-	5,140,057
OTHER ASSETS	79,799	91,045
PROPERTY, PLANT AND EQUIPMENT (Note 7)	3,902,982	3,271,511
FUTURE INCOME TAXES (Note 13)	1,838,258	212,000
GOODWILL (Note 5)	11,668,378	11,311,297
	<hr/> \$ 38,792,409	<hr/> \$ 38,920,238
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Operating loan (Note 8)	\$ 1,836,366	\$ 339,264
Accounts payable and accrued liabilities	2,245,941	1,615,145
Current portion of long-term debt (Note 9)	3,426,342	2,233,689
Liabilities of discontinued operations (Note 3)	3,812,004	2,572,461
	<hr/> 11,320,653	<hr/> 6,760,559
LONG-TERM DEBT (Note 9)	-	3,006,300
	<hr/> 11,320,653	<hr/> 9,766,859
<b>SHAREHOLDERS' EQUITY</b>		
Common shares (Note 10)	25,068,800	23,084,902
Contributed surplus (Note 11)	649,299	488,383
Cumulative translation adjustment	(1,495,269)	(1,387,164)
Retained earnings	3,248,926	6,967,258
	<hr/> 27,471,756	<hr/> 29,153,379
	<hr/> \$ 38,792,409	<hr/> \$ 38,920,238

Commitments (Note 16)

Subsequent events (Note 17)

See accompanying notes to the consolidated financial statements

APPROVED ON BEHALF OF THE BOARD:

\_\_\_\_\_, Terry McManaman  
"signed"

\_\_\_\_\_, Garry Zurowski  
"signed"

**GLOBAL RAILWAY INDUSTRIES LTD.**

**CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND RETAINED EARNINGS**

<b>YEARS ENDED DECEMBER 31</b>	<b>2005</b>	<b>2004 Restated (Note 3)</b>
SALES	\$ 29,881,306	\$ 29,955,017
COST OF SALES	(18,913,705)	(18,915,905)
GROSS MARGIN	10,967,601	11,039,112
OPERATING EXPENSES		
Salaries	4,011,914	3,505,457
General and administration	2,776,656	2,348,260
Plant closure (Note 4)	1,000,723	-
	7,789,293	5,853,717
Income before the following	3,178,308	5,185,395
Depreciation and amortization	549,830	720,854
Interest on long-term debt	529,901	321,524
Interest and bank charges, net	(8,365)	(58,885)
Foreign exchange gain	(550,167)	(284,616)
Earnings from continuing operations before income taxes	2,657,109	4,486,518
INCOME TAXES EXPENSE (Note 13)		
Current	221,880	448,768
Future	645,174	938,777
	867,054	1,387,545
EARNINGS FROM CONTINUING OPERATIONS	1,790,055	3,098,973
LOSS FROM DISCONTINUED OPERATIONS, net of tax (Note 3)	(5,508,387)	(1,337,664)
NET EARNINGS (LOSS) FOR YEAR	(3,718,332)	1,761,309
RETAINED EARNINGS, beginning of year	6,967,258	5,205,949
RETAINED EARNINGS, end of year	\$ 3,248,926	\$ 6,967,258
EARNINGS PER SHARE FROM CONTINUING OPERATIONS		
- basic	\$ 0.12	\$ 0.22
- diluted (Note 12)	\$ 0.12	\$ 0.21
EARNINGS (LOSS) PER SHARE		
- basic	\$ (0.26)	\$ 0.13
- diluted (Note 12)	\$ (0.26)	\$ 0.12

See accompanying notes to the consolidated financial statements.

**GLOBAL RAILWAY INDUSTRIES LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

<b>YEARS ENDED DECEMBER 31,</b>	<b>2005</b>	<b>2004 Restated (Note 3)</b>
<b>CASH FLOWS PROVIDED BY (USED IN) CONTINUING OPERATIONS:</b>		
Net earnings	\$ 1,790,055	\$ 3,098,973
Items not affecting cash		
Stock based compensation	192,814	222,127
Depreciation and amortization	549,830	720,854
Impairment of other assets	11,246	-
Future income taxes	645,174	(96,908)
Foreign exchange gain	(68,894)	(301,508)
Change in non-cash working capital balance:		
Accounts receivable	(214,236)	(337,100)
Inventories	(97,454)	(376,416)
Prepays	196,745	(53,920)
Accounts payable and accrued liabilities	850,796	155,411
Foreign currency loss on working capital balances	(108,105)	(437,725)
Income taxes recoverable	(210,864)	-
	<b>3,537,107</b>	<b>2,593,788</b>
<b>INVESTMENTS</b>		
Purchase of property, plant and equipment	(1,538,382)	(182,333)
Other assets	-	142,681
	<b>(1,538,382)</b>	<b>(39,652)</b>
<b>FINANCING</b>		
Issuance of common shares	1,952,000	12,877,502
Share issue costs	-	(799,806)
Repayment of long-term debt	(1,744,753)	(3,651,840)
Proceeds of operating loan	1,497,102	339,264
	<b>1,704,349</b>	<b>8,765,120</b>
<b>CASH PROVIDED BY CONTINUING OPERATIONS</b>	<b>3,703,074</b>	<b>11,319,256</b>
Cash used by discontinued operation (Note 3)	(4,139,818)	(10,945,201)
<b>INCREASE (DECREASE) IN CASH</b>	<b>(436,744)</b>	<b>374,055</b>
CASH, beginning of year	1,000,981	626,926
CASH, end of year	\$ 564,237	\$ 1,000,981
<b>SUPPLEMENTARY INFORMATION</b>		
Interest paid in the year	\$ 529,901	\$ 332,799
Income taxes paid in the year	\$ 231,916	\$ 1,040,025

**GLOBAL RAILWAY INDUSTRIES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**1. BUSINESS OF THE COMPANY**

Global Railway Industries Ltd. designs, manufactures and markets maintenance products, equipment and services to the railway industry.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized below.

Basis of presentation

The consolidated financial statements include the accounts of Global Railway Industries Ltd. and its wholly owned subsidiaries, Transportation Technologies Inc. ("TTI") and its wholly owned subsidiary, Rafna Industries Ltd. ("Rafna"), Bach-Simpson Corporation ("Bach"), Prime Steel Inc. ("Prime"), and YSD Holdings Inc. and its wholly owned subsidiaries, G&B Specialties, Inc. ("G&B") and YSD Industries (2004) Inc. ("YSD"). All significant inter company transactions and balances have been eliminated on consolidation.

Inventories

Inventories of components and purchased parts are valued at the lower of cost and net realizable value, on a first in, first out basis. Finished goods are valued at the lower of cost and net realizable value; cost includes materials, labor and overhead.

Property, plant and equipment

Property, plant and equipment is recorded at cost and amortized using the following annual rates and methods:

Machinery	20%	Declining balance
Computers	30%	Declining balance
Vehicles	30%	Declining balance
Furniture	20%	Declining balance
Buildings	2.5% - 3.0%	Straight-line

Deferred development costs

Expenditures incurred by YSD, net of related revenues, during the 2004 pre-operating period were deferred and were being amortized on a straight-line basis over five years. In 2005 this operation was closed (note 3) and the deferred development costs were written off.

**GLOBAL RAILWAY INDUSTRIES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the net assets acquired, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of earnings before extraordinary items and discontinued operations.

Revenue recognition

Revenue from product sales is recorded when title passes to the buyer. Engineering revenues are recognized as contractual obligations are met.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on the differences between the financial reporting and the tax basis of assets and liabilities. These differences are then measured using substantially enacted tax rates and laws that will be in effect when these differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Canada requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. The affected accounts are accounts receivable, inventories, property, plant and equipment, goodwill, future income taxes and depreciation and amortization. Actual results could differ from these estimates.

Earnings Per Share

Basic earnings per common share are calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per common share are calculated using the treasury stock method for determining the dilutive effect of options.

**GLOBAL RAILWAY INDUSTRIES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

Stock based compensation plan

The Company uses the fair value method for calculating stock based compensation cost. Under this method, compensation cost attributable to stock options granted to employees and directors is measured at fair value using the Black Scholes method to estimate fair value at the grant date and expensed over the vesting period, with a corresponding increase to contributed surplus. Upon the exercise of the option, consideration received, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

Foreign currency translation

The Company has three subsidiaries in the United States, which are classified as self-sustaining operations. Assets and liabilities of a foreign operation, which is self-sustaining in nature, are translated into Canadian dollars at the exchange rates in effect at the balance sheet date and revenues and expenses are translated into Canadian dollars at average exchange rates for the year. Translation adjustments are reflected in the cumulative translation adjustment in shareholders' equity.

With the closure of the YSD operations in 2005, the portion of the cumulative translation adjustment relating to YSD was expensed as part of discontinued operations (Note 3).

Monetary items denominated in foreign currency of a foreign operation, which is integrated in nature, are translated into Canadian dollars using the year-end exchange rate. Non-monetary balance sheet items are translated into Canadian dollars at historical exchange rates. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in the statement of earnings.

**3. DISCONTINUED OPERATIONS**

In October 2005, the Company announced the close of operation of YSD. In December 2005 the Company announced the sale of the YSD land and buildings in Youngstown, Ohio for US \$1.25 million on an "as is" basis, with no representations or warranties by the Company, and ceased active operations.

Subsequent to year-end, agreements were entered into for the sale of the other YSD assets on a product line basis (see Note 17). The sales of these assets are expected to be completed in the first half of 2006. The discontinued operations at December 31, 2005 include a provision for estimated losses on the assets.

**GLOBAL RAILWAY INDUSTRIES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**3. DISCONTINUED OPERATIONS (continued)**

As a result of these decisions, the activities of YSD have been presented as a discontinued operation. The financial information related to discontinued operations is as follows:

	<b>2005</b>	<b>2004</b>
SALES	\$ 15,924,996	\$ 4,791,543
COST OF SALES	(17,489,550)	(5,120,123)
GROSS MARGIN	(1,564,554)	(328,580)
OPERATING EXPENSES		
Salaries	960,083	698,926
General and administration	218,941	658,690
	1,179,024	1,357,616
Loss before the following:	(2,743,578)	(1,686,196)
Depreciation and amortization	846,263	195,937
Foreign exchange loss	66,193	66,179
Write-down of property, plant and equipment and intangible assets	2,117,068	75,492
Closure costs	2,006,773	-
	5,036,297	337,608
Loss before income taxes	(7,779,875)	(2,023,804)
INCOME TAX RECOVERY	(2,271,488)	(686,140)
LOSS FROM DISCONTINUED OPERATIONS	\$ (5,508,387)	\$ (1,337,664)
LOSS PER SHARE	\$ (0.38)	\$ (0.10)

The summarized balance sheets for the discontinued operation are as follows:

	<b>2005</b>	<b>2004</b>
<b>ASSETS</b>		
CURRENT		
Cash	\$ 21,144	\$ -
Accounts receivable	2,684,882	3,189,313
Inventories	2,809,290	3,541,200
Prepaid expenses	228,706	60,462
Property, plant and equipment	3,566,552	-
	9,310,574	6,790,975
OTHER ASSETS	-	263,599
DEFERRED DEVELOPMENT COSTS	-	1,434,383
PROPERTY, PLANT AND EQUIPMENT	-	3,442,075
	\$ 9,310,574	\$ 11,931,032
CURRENT LIABILITIES		
Line of credit	-	713,911
Accounts payable and accrued liabilities	3,812,004	1,858,550
	3,812,004	2,572,461
NET ASSETS OF DISCONTINUED OPERATIONS	\$ 5,498,570	\$ 9,358,571

**GLOBAL RAILWAY INDUSTRIES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**3. DISCONTINUED OPERATIONS (continued)**

Cash flows from discontinued operations are as follows:

	<b>2005</b>	<b>2004</b>
Cash flows provided by (used in)		
Operations	\$ (1,287,233)	\$ (6,519,055)
Investments	(2,159,818)	(5,140,057)
Financing	(713,911)	713,911
Changes in cash	21,144	-
Cash used by discontinued operations	\$ (4,139,818)	\$ (10,945,201)

The accounts receivable includes a USD \$301,000 (2004 - USD \$301,000), non-interest bearing promissory note from an officer of the subsidiary

In 2004 other assets were non-compete payments to former owners of YSD. Amortization of the non-compete payments was being provided on a straight-line basis over five years. This amount was written off on closure.

**4. PLANT CLOSURE COSTS**

The plant closure expenses include the one-time costs incurred to wind-up the operations at Rafna and merge them into the operations of G&B. One-time costs include severance to employees, outplacement services, advertising, custom broker fees and other related expenditures.

**5. ACQUISITIONS**

In 2005, the purchase price of G&B was increased by \$357,081 in accordance with a contingency provision of the acquisition agreement. This purchase price adjustment has been reflected as an accrued payable and as an increase in goodwill.

On April 5, 2004, Global acquired all of the assets of YSD Industries Inc. The results of operations have been included since that time. YSD was a supplier of rail car doors, replacement parts and services primarily in the United States.

Total consideration was \$4,990,413, including \$388,751 of acquisition costs (included in acquisition costs was ~~\$2000~~ owing to an officer of the Company). The purchase method of accounting was used to account for the acquisition. The total purchase price was allocated based on fair values as follow:

Inventories	\$ 1,980,000
Accounts receivable	1,185,031
Other intangibles	340,560
Land	261,194
Building	783,581
Equipment	1,044,775
Total assets acquired	<u>5,595,141</u>
Less: liabilities assumed	<u>(604,728)</u>
Net assets acquired	<u>\$ 4,990,413</u>

**GLOBAL RAILWAY INDUSTRIES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**6. INVENTORIES**

Inventories of continuing operations consist of components \$3,353,712 (2004 - \$3,563,863) and finished goods \$3,932,756 (2004 - \$3,625,151).

**7. PROPERTY, PLANT AND EQUIPMENT**

	<b>2005</b>			<b>2004</b>		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Machinery	\$2,575,375	\$673,480	\$1,901,895	\$ 2,478,127	\$ 959,923	\$ 1,518,204
Computers	596,765	485,673	111,092	574,959	416,667	158,292
Vehicles	121,012	73,732	47,280	165,654	64,946	100,708
Furniture	264,019	175,391	88,628	208,800	125,622	83,178
Leasehold improvements	68,670	62,508	6,162	68,670	60,968	7,702
Land	81,899	-	81,899	84,434	-	84,434
Buildings	1,735,030	69,004	\$1,666,026	1,350,668	31,675	1,318,993
	<u>\$5,442,770</u>	<u>\$1,539,788</u>	<u>\$3,902,982</u>	<u>\$ 4,931,312</u>	<u>\$ 1,659,801</u>	<u>\$ 3,271,511</u>

**8. OPERATING LOAN**

The Company has a USD \$5,000,000 operating loan credit facility that is repayable on demand. Interest of prime plus 0.5% is payable monthly. The revolving line of credit is secured by the same security agreement and pledges as the bank term loan described in Note 9.

**9. LONG-TERM DEBT**

	<b>2005</b>	<b>2004</b>
Bank term loan	\$ 2,627,809	\$ 3,823,462
Acquisition financing (Note 5)	666,282	1,056,071
Other	132,251	360,456
Total long term debt	3,426,342	5,239,989
Less: Current portion (Note 17)	(3,426,342)	(2,233,689)
	<u>\$ -</u>	<u>\$ 3,006,300</u>

The bank term loan bears interest at bank prime plus 1% per annum. Interest paid on the term loan in 2005 was \$237,766 (2004 - \$260,310). The loan is repayable in equal monthly installments of USD \$77,253 plus interest. The loan is secured by a general security agreement, guarantees of subsidiaries and assignment of insurance proceeds. The loan agreement requires the Company to maintain certain minimum financial ratios.

The acquisition financing does not bear interest and is not secured. The obligation is payable in equal monthly installments of USD \$83,333 per month. The individual to whom this debt is owed is a director of the Company.

At December 31, 2005 the Company has provided letters of credit to customers aggregating \$150,000.

**GLOBAL RAILWAY INDUSTRIES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**10. COMMON SHARES**

Authorized

Unlimited number of common voting shares

Unlimited number of preferred, redeemable shares

	<b>2005</b>		<b>2004</b>	
	Issued	Amount	Issued	Amount
Common shares outstanding at January 1	14,106,744	\$ 23,084,902	10,375,672	\$ 10,937,259
Options exercised	150,000	452,000	25,000	62,500
Warrants exercised	600,000	1,500,000	277,500	555,000
Private placement	-	-	3,428,572	12,000,002
Reclassification from contributed surplus on exercise of stock options	-	31,898	-	69,947
Private placement share issue costs (net of future tax of \$260,000)	-	-	-	(539,806)
	<u>14,856,744</u>	<u>\$ 25,068,800</u>	<u>14,106,744</u>	<u>\$ 23,084,902</u>

In conjunction with a financing agreement in 2000, the Company issued a warrant entitling the lender to acquire up to 600,000 shares at a price of \$2.50 per share prior to June 15, 2005. In 2005 the holder exercised the warrant and acquired 600,000 shares.

The Company has granted share options to officers, directors, employees and consultants to purchase common shares. Changes in the number of options outstanding, with their weighted average exercise prices, are summarized below:

	<b>2005</b>		<b>2004</b>	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	937,500	\$ 3.36	525,000	\$ 2.20
Granted	330,000	2.52	455,000	4.69
Exercised	(150,000)	3.01	(25,000)	2.50
Cancelled or expired	(472,500)	3.53	(17,500)	3.86
Balance end of year	<u>645,000</u>	<u>\$ 2.89</u>	<u>937,500</u>	<u>\$ 3.36</u>
Exercisable end of year	<u>480,000</u>	<u>\$ 2.99</u>	<u>795,833</u>	<u>\$ 3.14</u>

**GLOBAL RAILWAY INDUSTRIES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**10. COMMON SHARES** (continued)

The stock options granted to officers, directors, employees and consultants to purchase common shares are exercisable at December 31, 2005 as follows:

Exercise Period	Number of Options	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
Prior to September 2006	75,000	2.50	75,000	2.50
Prior to August 2007	25,000	2.00	25,000	2.00
Prior to January 2008	180,000	2.00	180,000	2.00
Prior to June 2008	30,000	4.95	20,000	4.95
Prior to August 2008	50,000	5.25	30,000	5.25
Prior to January 2009	90,000	4.40	90,000	4.40
Prior to September 2009	25,000	5.40	25,000	5.40
Prior to June 2010	30,000	3.70	-	-
Prior to November 2010	90,000	1.30	30,000	1.30
Prior to December 2010	50,000	1.95	5,000	1.95
	645,000	2.89	480,000	2.99

Fair value disclosures

The fair value of each stock option grant on the date of grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2005	2004
Expected option life (years)	3.00	2.61
Risk-free interest rate	3.80%	3.78%
Expected stock price volatility	58%	50%
Expected annual dividends per share	\$ 0	\$ 0

The average fair value of options granted during 2005 was \$0.81 per option (2004 - \$1.42 per option).

**11. CONTRIBUTED SURPLUS**

	2005	2004
Opening balance	\$ 488,383	\$ 336,203
Stock based compensation on options granted	192,814	222,127
Options exercised	(31,898)	(69,947)
Balance end of year	\$ 649,299	\$ 488,383

**GLOBAL RAILWAY INDUSTRIES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

**12. PER SHARE INFORMATION**

Adjustments to basic earnings per share are as follows:

**EARNINGS FROM CONTINUING OPERATIONS**

	<b>2005</b>			<b>2004</b>		
	Net earnings	Shares	Per share amount	Net earnings	Shares	Per share amount
Basic	\$ 1,790,055	14,523,202	\$ 0.12	\$ 3,098,973	13,848,124	\$ 0.22
Effect of options	-	192,033	-	-	291,393	-
Effect of warrants	-	-	-	-	292,623	-
Diluted	\$ 1,790,055	14,715,235	\$ 0.12	\$ 3,098,973	14,432,140	\$ 0.21

**NET EARNINGS (LOSS) FOR YEAR**

	<b>2005</b>			<b>2004</b>		
	Net earnings	Shares	Per share amount	Net earnings	Shares	Per share amount
Basic	\$ (3,718,332)	14,523,202	\$ (0.26)	\$ 1,761,309	13,848,124	\$ 0.13
Effect of options	-	-	-	-	291,393	-
Effect of warrants	-	-	-	-	292,623	-
Diluted	\$ (3,718,332)	14,523,202	\$ (0.26)	\$ 1,761,309	14,432,140	\$ 0.12

**13. INCOME TAXES**

The income tax provision differs from income taxes, which would result from applying the expected income tax rate to earnings before income taxes. The difference between the computed "expected" income tax expense and the actual income tax provision are summarized as follows:

Continuing operations:

	<b>2005</b>	<b>2004</b>
Earnings before income taxes	\$ 2,657,109	\$ 4,486,518
Expected income tax rate	34%	34%
Computed "expected" income tax expense	903,417	1,525,415
Difference resulting from:		
Non-taxable foreign exchange gain	(88,986)	(48,385)
Non-deductible items	5,109	14,370
Reversal of valuation allowance	-	(60,480)
Recognition of tax benefit of non-capital losses not previously recognized	-	(73,806)
Tax rate differential	21,170	-
Provincial capital tax	26,344	30,431
Provision for income taxes	<u>\$ 867,054</u>	<u>\$ 1,387,545</u>

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**13. INCOME TAXES (continued)**

Discontinued operations:

	<b>2005</b>	<b>2004</b>
Loss before income taxes	\$(7,779,875)	\$(2,023,804)
Expected income tax rate	34%	34%
Computed "expected" income tax recovery	(2,645,158)	(688,093)
Difference resulting from:		
Non-deductible items	373,670	1,953
Provision for income taxes	\$(2,271,488)	\$ (686,140)

The expected income tax rate reflects a combined Federal (Canada and United States), Provincial (Quebec and Ontario) and State (Ohio and Pennsylvania) income tax rate for manufacturing and processing companies.

The component parts of the future tax asset (liability) are as follows:

	2005	2004
Future income tax assets:		
Share issuance costs	\$ 288,094	\$ 378,143
Loss carry forwards	3,057,966	933,766
Other assets	80,572	157,760
	3,426,632	1,469,669
Future income tax liabilities:		
Property, plant and equipment	(1,375,119)	(647,459)
Unrealized foreign exchange gain	(213,255)	(118,785)
Deferred development	-	(491,425)
	(1,588,374)	(1,257,669)
Net future tax asset	\$ 1,838,258	\$ 212,000

The parent company has non-capital losses of \$839,000, which can be carried forward to reduce future Canadian taxable income. The losses will expire in 2010 to 2012. A U.S. subsidiary has non-capital losses of approximately USD \$6,500,000 which can be carried forward to reduce future U.S. taxable income. The losses will expire in 2026. The future tax benefit of these losses has been recognized in the financial statements, as it is more likely than not they will be utilized.

**14. FINANCIAL INSTRUMENTS**

The financial instruments consist of accounts receivable, resulting in future cash receipts, as well as an operating loan, accounts payable and accrued liabilities and long-term debt, resulting in future cash outlays.

Credit Risk

Credit risk arises from the possibility that the entities to which the Company sells products and services may experience difficulty and be unable to fulfill their obligations. The Company is exposed to financial risk that arises from the credit quality of the entities to which it sells products and services.

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**14. FINANCIAL INSTRUMENTS (continued)**

The Company's revenues depend primarily on the level of spending by the major railways, original equipment manufacturers and transit authorities. Demand for the Company's products can be characterized as large one-time orders. The majority of the Company's customers consist of large companies in the railway industry with good credit standing. As a result, there are minimal allowances for doubtful accounts.

Interest Rate Risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a debt instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to financial risk that arises from the interest rate differentials between the market interest rate and the rates on its financial instruments.

Foreign Exchange Rate Fluctuation

The Company has a substantial amount of transactions denominated in US dollars and is exposed to risk with respect to fluctuations in exchange rates between Canadian and U.S. dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

Fair Values

The fair values of financial instruments reflected on the balance sheet approximate the carrying values at December 31, 2005 and 2004.

At December 31, 2004 the Company had an unrealized gain of \$23,415 on forward interest rate contracts, and an unrealized gain of \$99,600 on forward foreign currency exchange contracts. The Company has no such contracts at December 31, 2005.

**15. SEGMENTED INFORMATION**

The Company's operations are based primarily on the manufacture and sale of railway maintenance equipment. The following is a summary of the Company's sales, assets and goodwill.

	<b>2005</b>			<b>2004</b>		
	United States	Canada	Total	<b>Restated (Note 3)</b>		
	United States	Canada	Total	United States	Canada	Total
Sales	\$ 19,426,091	\$ 10,455,215	\$ 29,881,306	\$ 21,350,747	\$ 8,604,270	\$ 29,955,017
Property, plant and equipment	\$ 3,439,386	\$ 463,596	\$ 3,902,982	\$ 2,490,424	\$ 781,087	\$ 3,271,511
Goodwill	\$ 8,112,683	\$ 3,555,695	\$ 11,668,378	\$ 7,755,602	\$ 3,555,695	\$ 11,311,297

**16. COMMITMENTS**

The minimum rentals payable under long-term operating leases, before operating costs for which the Company is responsible are as follows:

2006	\$ 325,500
2007	325,290
2008	237,504
2009	222,024
2010	95,308

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**17. SUBSEQUENT EVENTS**

To date the Company has realized \$6,826,871 on the sale of land, building, equipment and certain of the inventories. These funds were used to repay \$2,627,809 of long-term debt (see Note 9), as well as to fund the payment of liabilities associated with the YSD closure.