

Consolidated Financial Statements of

**GLOBAL RAILWAY INDUSTRIES LTD.**

Years ended December 31, 2007 and 2006



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## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Global Railway Industries Ltd. as at December 31, 2007 and 2006 and the consolidated statements of comprehensive income (loss), shareholders' equity, 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

London, Canada

February 22, 2008

# GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Balance Sheets

December 31, 2007 and 2006

	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 894,458	\$ 6,830,949
Accounts receivable	11,521,362	3,411,310
Due from vendor (note 3)	1,774,143	-
Inventories (note 4)	14,727,658	7,055,368
Prepaid expenses	172,147	214,625
Future income taxes (note 5)	272,578	1,065,283
	<u>29,362,346</u>	<u>18,577,535</u>
Property, plant and equipment (note 6)	12,437,403	4,233,435
Intangible assets (note 7)	1,036,875	-
Future income taxes (note 5)	956,794	722,208
Goodwill	14,778,273	11,749,831
	<u>\$ 58,571,691</u>	<u>\$ 35,283,009</u>

## Liabilities and Shareholders' Equity

Current liabilities:		
Operating loan (note 8)	\$ 100,000	\$ -
Accounts payable and accrued liabilities	6,291,453	2,143,323
Customer deposits	2,000,000	-
Income taxes payable	286,375	245,774
	<u>8,677,828</u>	<u>2,389,097</u>
Long-term debt (note 8)	13,439,705	-
Customer deposits (note 9b)	1,000,000	-
Future income taxes (note 5)	1,715,955	1,581,735
Shareholders' equity:		
Share capital (note 10)	26,073,957	25,326,185
Contributed surplus	1,528,403	979,502
Accumulated other comprehensive loss	(3,573,497)	(1,409,696)
Retained earnings	9,709,340	6,416,186
	<u>33,738,203</u>	<u>31,312,177</u>
Contingencies (note 9)		
Commitments (note 11)		
	<u>\$ 58,571,691</u>	<u>\$ 35,283,009</u>

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"Terry McManaman" Chairman of the Board

"Garry Zurowski" Chairman of the Audit Committee

# GLOBAL RAILWAY INDUSTRIES LTD.

## Consolidated Statements of Comprehensive Income

Years ended December 31, 2007 and 2006

	2007		2006	
Sales	\$	36,812,686	\$	31,883,903
Cost of goods sold		22,734,835		19,364,810
		14,077,851		12,519,093
Operating expenses:				
Salaries		4,965,926		3,811,009
General and administration		3,614,257		2,537,505
		8,580,183		6,348,514
Other expenses (income):				
Amortization		645,934		498,424
Interest, net		(360,681)		(70,690)
Interest on long-term debt		108,164		-
Foreign exchange		(65,774)		(91,021)
		327,643		336,713
Earnings before income taxes from continuing operations		5,170,025		5,833,866
Income taxes (note 5):				
Current		981,391		324,693
Future		895,480		1,882,332
		1,876,871		2,207,025
Net earnings from continuing operations		3,293,154		3,626,841
Net loss from discontinued operations (note 12)		-		(459,581)
Net earnings		3,293,154		3,167,260
Other comprehensive income (loss):				
Unrealized gain (loss) on translating financial statements of a self-sustaining foreign operation		(2,163,801)		85,573
Comprehensive income	\$	1,129,353	\$	3,252,833
Net earnings per share from continuing operations (note 13):				
Basic	\$	0.22	\$	0.24
Diluted	\$	0.22	\$	0.24
Net earnings per share:				
Basic	\$	0.22	\$	0.21
Diluted	\$	0.22	\$	0.21

See accompanying notes to the consolidated financial statements.

**GLOBAL RAILWAY INDUSTRIES LTD.**

Consolidated Statements of Shareholders' Equity

Years ended December 31, 2007 and 2006

	Number of common shares issued	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings
Balance at December 31, 2005	14,856,744	\$ 25,068,800	\$ 649,299	\$ (1,495,269)	\$ 3,248,926
Stock-based compensation	-	-	400,088	-	-
Options exercised	75,000	257,385	(69,885)	-	-
Change in accumulated foreign currency translation adjustment	-	-	-	85,573	-
Net earnings	-	-	-	-	3,167,260
Balance at December 31, 2006	14,931,744	25,326,185	979,502	(1,409,696)	6,416,186
Stock-based compensation	-	-	793,498	-	-
Options exercised	205,656	747,772	(244,597)	-	-
Change in accumulated foreign currency translation adjustment	-	-	-	(2,163,801)	-
Net earnings	-	-	-	-	3,293,154
Balance at December 31, 2007	15,137,400	\$ 26,073,957	\$ 1,528,403	\$ (3,573,497)	\$ 9,709,340

See accompanying notes to the consolidated financial statements.

# GLOBAL RAILWAY INDUSTRIES LTD.

## Consolidated Statements of Cash Flows

Years ended December 31, 2007 and 2006

	2007	2006
Cash flows from (used in):		
Operating activities:		
Net earnings from continuing operations	\$ 3,293,154	\$ 3,626,841
Items not involving cash:		
Future income tax provision	895,480	1,882,332
Stock-based compensation expense	793,498	400,088
Amortization of plant and equipment and intangibles	645,934	498,424
Interest expense	7,187	-
Gain on sale of property, plant, and equipment	(36,311)	-
Unrealized foreign exchange gain	(210,328)	(13,076)
Changes in non-cash operating working capital:		
Accounts receivable	(5,503,951)	424,224
Inventories	233,542	231,100
Prepaid expenses	320,749	(119,310)
Income taxes recoverable	-	210,864
Accounts payable and accrued liabilities	2,230,458	(102,618)
Customer deposits	2,000,000	-
Income taxes payable	40,601	245,774
Unrealized foreign currency translation gain (loss)	(1,618,949)	85,573
	3,091,064	7,370,216
Investing activities:		
Acquisition (note 3)	(21,131,174)	-
Due from vendor (note 3)	(1,774,143)	-
Purchase of property, plant, and equipment	(1,103,096)	(828,877)
Proceeds from disposal of property, plant, and equipment	57,153	-
Other assets	-	(1,654)
	(23,951,260)	(830,531)
Financing activities:		
Decrease in operating loan	(740,000)	(1,836,366)
Customer deposits	1,000,000	-
Increase in long-term debt	13,439,705	(3,426,342)
Issuance of share capital	503,175	187,500
	14,202,880	(5,075,208)
Increase (decrease) in cash from continuing operations	(6,657,316)	1,464,477
Cash provided by discontinued operations (note 12)	-	4,802,235
Increase (decrease) in cash	(6,657,316)	6,266,712
Cash and cash equivalents, beginning of year	6,830,949	564,237
Cash and cash equivalents acquired on acquisition	720,825	
Cash and cash equivalents, end of year	\$ 894,458	\$ 6,830,949
Cash and cash equivalents comprised of:		
Cash	\$ 869,458	\$ 6,780,949
Term deposit	\$ 25,000	\$ 50,000
Supplementary information:		
Interest paid	\$ 136,925	\$ 7,147
Income taxes paid	\$ 871,138	\$ 46,048

See accompanying notes to the consolidated financial statements.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006

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Global Railway Industries Ltd. designs, manufactures, remanufactures, and markets railway products, equipment, locomotives, and services to the railway industry. The Company was incorporated in the Province of Alberta and is listed under the symbol "GBI" on the Toronto Stock Exchange.

### 1. Significant accounting policies:

(a) Basis of presentation:

The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of Global Railway Industries Ltd. and its wholly-owned subsidiaries, Bach-Simpson Corporation ("Bach-Simpson"), CAD Railway Industries Ltd. (CADRI), formerly Prime Steel Inc., and GBI USA Holdings, Inc., formerly YSD Holdings (2004), Inc., and its wholly-owned subsidiaries, G&B Specialties Inc. ("G&B") and GBI Industries, Inc., formerly YSD Industries (2004), Inc. ("YSD"). In 2006, Transportation Technologies Inc. and its wholly-owned subsidiary Rafna Industries Ltd. were amalgamated with Bach-Simpson. All significant intercompany transactions and balances have been eliminated upon consolidation.

(b) Inventories:

Inventories of components and purchased parts are valued at the lower of cost and replacement cost, on a first-in, first-out basis. Finished goods and work in process are valued at the lower of cost, including materials, labour and overhead, and net realizable value.

(c) Property, plant and equipment:

Property, plant and equipment are recorded at cost and are amortized on a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Useful life
Buildings	40 years
Machinery and equipment	10 years
Computers	5 years
Vehicles	5 years
Furniture	10 years
Leasehold improvements	term of lease

(d) Intangible assets:

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination, is allocated to the individual assets based on their relative fair value. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives as follows:

Intangible asset	Useful life
Trade names	10 years
Trademarks	10 years
Customer relationships	10 years

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Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually or more frequently if events and changes in circumstances indicate that an asset might be impaired.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006

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### 1. Significant accounting policies (continued):

(e) 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.

Goodwill is not amortized but 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 on the Statements of Comprehensive Income before extraordinary and discontinued operations.

(f) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value, less costs to sell and are no longer depreciated. The asset and liabilities of a disposed group of assets classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(g) Revenue recognition:

The Company ships to customers who have been identified as worthy of receiving credit and have provided the Company with a legally enforceable purchase commitment at a specific price as agreed to by the Company. The Company recognizes revenue when products are shipped and the customer assumes risk of loss. Revenues for engineering service contracts and production contracts are recognized as contractual obligations are met. Revenues for longer term production and remanufacturing contracts are recognized under the percentage of completion ("POC") method. Under the POC method, revenue is recognized based on the costs incurred to date as a percentage of the total estimated costs for each unit of production. If circumstances arise that may change the original estimates of revenues, costs, or extent of progress toward completion, then revisions to the estimates are made. These revisions may result in increases or decreases in estimated revenues or costs, and such revisions are reflected in income in the period in which the circumstances that give rise to the revision become known by management. The company provides for the estimated cost of product warranties at the time of revenue recognition.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006

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### 1. Significant accounting policies (continued):

(h) 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 for the period that the change occurs.

(i) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting periods. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, intangible assets, and goodwill; valuation allowances for accounts receivable, inventories, future income taxes; and the calculation of stock-based compensation. Actual results could differ from those estimates.

(j) 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. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average share outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming the outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the year.

(k) Stock-based compensation plan:

The Company uses the fair value method for calculating stock-based compensation expense. Under this method, compensation expense attributable to stock options granted to employees, directors and service providers, 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.

(l) Foreign currency translation:

As of December 31, 2007, the Company had one subsidiary in the United States, which is classified as a self-sustaining operation. Assets and liabilities of a self-sustaining foreign operation 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 period. The cumulative unrealized translation gain or loss is included in Accumulated other comprehensive income or loss in the Consolidated Statements of Shareholders' Equity.

Transactions of the Company and its subsidiaries originating in foreign currencies are translated at the rates in effect at the time of the transaction. Monetary items denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Foreign exchange gains and losses are included in other income on the Consolidated Statements of Comprehensive Income.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006

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### 2. Changes in accounting policies:

In the first quarter of 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

- (a) *Section 1506 - Accounting Changes*, provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required to conform to Canadian generally accepted accounting policies, or the change results in more relevant and reliable information.
- (b) *Section 1530 - Comprehensive Income*, establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting policies.
- (c) *Section 3251 - Equity*, establishes standards for the presentation of equity in the reporting period.
- (d) *Section 3855 - Financial Instruments - Recognition and Measurement*, establishes standards for recognizing and measuring financial instruments, namely financial assets, financial liabilities and derivatives.
- (e) *Section 3861 - Financial Instruments - Disclosure and Presentation*, establishes standards for presentation and disclosure of financial instruments, namely financial assets, financial liabilities and derivatives.
- (f) *Section 3865 - Hedges*, establishes standards for which hedge accounting is permissible and how it may be applied.

These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements.

Under these new standards, all financial instruments are required to be initially measured at fair value and classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification.

The Company has implemented the following classifications:

- (i) Cash and cash equivalents are classified as "Financial Assets Held for Trading". These financial assets are marked-to-market through net earnings at each period end.
- (ii) Accounts receivable and due from vendor are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost.
- (iii) Accounts payable, accrued liabilities, customer deposits, operating loan and long-term debt are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost.

As a result of adopting Sections 1530 and 3251, the cumulative translation adjustment related to the Company's self-sustaining foreign operations has been reclassified for presentation purposes as Accumulated other comprehensive loss on the Consolidated Statements of Shareholders' Equity.

The adoption of Sections 1506, 3855, 3861 and 3865 had no impact on the consolidated financial statements for the year ended December 31, 2007.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006

### 3. Acquisition:

On November 14, 2007, the Company acquired substantially all of the business assets and net working capital of Canadian Allied Diesel Co. Ltd., CAD Railway Services Inc., Lachine Rail Centre Inc. and Engine System Development Centre Inc. (together "CAD"), for cash consideration of \$22,000,000. The transaction was financed through \$8,000,000 of on-hand cash, plus financing of \$14,000,000 through the Company's new credit facility as described in note 6. The purchase price was subject to final adjustments based upon the final net working capital value. Subsequent to closing, the Company identified a net working capital shortfall of approximately \$1,774,000, which has been presented as due from vendor on the balance sheet. The vendors are not in agreement with the amount of the net working capital shortfall. Accordingly, the Company is seeking recovery of this shortfall from the vendors through the arbitration process specified in the asset purchase agreement. Under the asset purchase agreement, the vendors placed \$1,500,000 of their sales proceeds into an escrow account which the Company is entitled to claim against recovery of the net working capital shortfall.

The acquisition by the Company has been accounted for by the purchase method, whereby the net assets acquired are recorded at fair value. The allocation of the purchase price is presently based on the amounts agreed to in the asset purchase agreement. Management is still determining their best estimate of the relative fair values of the identifiable assets acquired and liabilities assumed at the acquisition date, and accordingly, the allocation could materially change.

The allocation of the purchase price to the net assets acquired at their assigned values is as follows:

Cash and cash equivalents	\$	720,825
Accounts receivable		2,606,101
Inventory		7,905,832
Prepaid expenses		278,271
Property, plant and equipment		8,299,375
Intangible assets		1,050,000
Goodwill		3,028,442
Total assets		23,888,846
Bank loan		(840,000)
Accounts payable and accrued liabilities		(1,917,672)
Net assets acquired		21,131,174
Consideration paid		(22,000,000)
Transaction costs		(905,317)
Due from vendor		\$ (1,774,143)

**GLOBAL RAILWAY INDUSTRIES LTD.**

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006

**4. Inventories:**

	2007	2006
Finished goods	\$ 8,411,410	\$ 4,067,619
Work in progress	2,529,845	1,325,814
Raw materials	3,786,403	1,661,935
	<u>\$ 14,727,658</u>	<u>\$ 7,055,368</u>

**5. Income taxes:**

The income tax provision differs from the amount which would result from applying the expected income tax rate to earnings before income taxes. The reasons for the differences are as follows:

	2007	2006
Continuing operations:		
Earnings before income taxes	\$ 5,170,025	\$ 5,833,866
Expected income tax rate	34%	34%
Computed expected income tax expense	1,757,809	1,983,514
Difference resulting from:		
Non-deductible items	(102,767)	31,556
U.S. state tax	202,285	211,496
Tax rate differential	3,527	20,688
Tax rate changes	(57,059)	-
Other	73,076	(40,229)
Provision for income taxes	<u>\$ 1,876,871</u>	<u>\$ 2,207,025</u>

The expected income tax rate reflects the combined Federal, Provincial and State income tax rates for manufacturing and processing companies.

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	2007	2006
Future tax assets:		
Financing costs	\$ 49,552	\$ 189,213
Plant and equipment and intangible assets principally due to differences in depreciation and amortization	62,465	90,106
Net operating loss carryforwards	1,080,914	1,465,297
Net capital loss carryforwards	154,908	-
Other	36,441	42,875
	<u>1,384,280</u>	<u>1,787,491</u>
Valuation allowance	(154,908)	-
	<u>1,229,372</u>	<u>1,787,491</u>
Future tax liabilities:		
Management contract payments	1,137,674	1,338,630
Plant and equipment and intangible assets principally due to differences in depreciation and amortization	578,281	243,105
	<u>1,715,955</u>	<u>1,581,735</u>
Net future income tax asset (liability)	<u>\$ (486,583)</u>	<u>\$ 205,756</u>

**GLOBAL RAILWAY INDUSTRIES LTD.**

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006

**5. Income taxes (continued):**

Net future tax assets (liabilities) are classified for balance sheet purposes as follows:

	2007	2006
Current assets	\$ 272,578	\$ 1,065,283
Long-term assets	956,794	722,208
Long-term liabilities	(1,715,955)	(1,581,735)
	\$ (486,583)	\$ 205,756

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the future tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

The Company has non-capital losses of approximately \$3,367,000 which can be carried forward to reduce future Canadian taxable income. The losses will expire in 2008 to 2027. The Company also has net capital losses of approximately \$490,000 which can be carried forward indefinitely to reduce future taxable capital gains. Due to uncertainty of realization, a valuation allowance of approximately \$155,000 (December 31, 2006 - nil) has been recorded against the future tax benefit of the capital losses.

**6. Property, plant and equipment:**

December 31, 2007	Cost	Accumulated amortization	Net book value
Land	\$ 346,078	\$ -	\$ 346,078
Buildings	6,973,322	170,658	6,802,664
Machinery and equipment	6,315,943	1,746,991	4,568,952
Computers	903,059	462,741	440,318
Vehicles	140,423	92,297	48,126
Furniture	277,332	134,371	142,961
Leasehold improvements	193,910	105,606	88,304
	\$ 7,830,667	\$ 2,542,006	\$ 5,288,661

December 31, 2006	Cost	Accumulated amortization	Net book value
Land	\$ 142,150	\$ -	\$ 142,150
Buildings	2,020,977	123,012	1,897,965
Machinery and equipment	3,033,811	1,031,963	2,001,848
Computers	598,694	557,717	40,977
Vehicles	121,012	80,066	40,946
Furniture	286,333	181,584	104,749
Leasehold improvements	68,670	63,870	4,800
	\$ 4,108,520	\$ 1,915,200	\$ 2,193,320

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006

### 7. Intangible assets:

December 31, 2007	Cost	Accumulated amortization	Net book value
Customer relationships, trade names and trade marks	\$ 1,050,000	\$ 13,125	\$ 1,036,875
	\$ 1,050,000	\$ 13,125	\$ 1,036,875

### 8. Credit facilities:

On November 6, 2007, the Company entered into a credit agreement shared between two Canadian banks (the "Lenders"). The aggregate maximum amount of the credit facilities under the credit agreement is \$34,100,000 and is comprised of: (i) a demand revolving operating facility in the principle amount of \$10,000,000, subject to borrowing base requirements, the proceeds of which are to be used to finance ongoing operating and working capital requirements; (ii) a five year revolving, reducing, term loan in the principle amount of \$22,000,000 to finance the CAD acquisition, working capital, capital expenditures and other acquisitions; (iii) a hedge facility in the maximum aggregate amount of \$2,000,000 to enable the Company to incur interest rate related risk and foreign exchange related risk under hedge contracts between the Company and the Lenders; and (iv) a credit card facility in the aggregate maximum amount of \$100,000. Under certain conditions, the Company is able to increase the amount of the term facility by up to \$8,000,000. The credit facilities are guaranteed by the Company and each of its wholly owned subsidiaries and are secured by general security interests over substantially all of the assets of Global and its subsidiaries. Each facility is subject to annual review and renewal by the Lenders.

The demand revolving operating facility bears interest at a floating rate between nil and 0.25% over the Canadian bank prime lending rate, or between 1.0% and 1.5% over the applicable bankers acceptance rate, depending upon the Company's ratio of funded debt to earnings before interest, income taxes, depreciation and amortization.

The five year revolving, reducing, term loan facility bears interest at a floating rate between nil and 0.5% over the Canadian bank prime lending rate, or between 1.25% and 1.75% over the applicable bankers acceptance rate, depending upon the Company's ratio of funded debt to earnings before interest, income taxes, depreciation and amortization, and is subject to a standby fee on the undrawn portion of the facility. The principal amount available under the term facility is reduced by an amount equal to \$770,000 on the first day of each calendar quarter commencing on April 1, 2008 and continuing thereafter until November 13, 2012. Each quarter, the Company must repay any amount of outstanding principal which exceeds the adjusted available amount on the term facility. At December 31, 2007, transaction and financing costs in the amount of approximately \$560,000 are included in the carrying amount of the amount outstanding under the term facility, and are recognized using the effective interest rate method.

The balances outstanding under the Company's credit facilities are as follows:

	2007	2006
Operating facility	\$ 100,000	\$ -
Term facility	\$ 13,439,705	\$ -
Hedge facility	\$ -	\$ -
Credit card facility	\$ -	\$ -

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006

### 9. Contingencies:

- (a) The Company is a party to a management employment contract which requires payment of a certain amount upon a change of control and the occurrence of an event that constitutes constructive dismissal of the executive within twelve months of the change of control. This would result in an additional expense of approximately USD \$550,000. Subsequent to year end, the Company added similar change of control provisions to the employment contracts of other senior management members, increasing the Company's possible future expense by an additional USD \$492,000.
- (b) The Company has issued an irrevocable standby letter of credit in the amount of \$1,000,000 as security against a customer's contractual prepayments. The guarantee expires on December 10, 2008, but is automatically renewable for an additional period of one year.
- (c) In the normal course of business, the Company provides indemnification commitments to customers in the form of annual performance bonds. These indemnification commitments generally require the Company to compensate the customers, upon demand, for costs or losses resulting from the Company's failure to fulfill its contractual obligations. The terms of these indemnification agreements vary based on the contract and generally do not exceed one year. As at December 31, 2007, the Company's potential liability under indemnification commitments is \$5,000,000. Historically, the Company has not made any payments under such indemnifications and accordingly, as of December 31, 2007, no amount has been accrued in the consolidated financial statements.
- (d) The Company has been named as a co-defendant in a lawsuit claiming breach of contract. The suit claims damages of \$400,000 plus interest and costs. Management is aggressively disputing the claim. The action is currently at the discovery stage and the likely outcome is not determinable. Accordingly, no provision for losses has been accrued in the consolidated financial statements.

### 10. Share capital:

- (a) Common and preferred shares:

The authorized share capital of the Company consists of an unlimited number of voting common shares, and an unlimited number of preferred shares. Preferred shares may be issued in one or more series, each consisting of a number of preferred shares, as determined by the Board of Directors who also may fix the designations, rights, privileges, restrictions and conditions attaching to the shares of each series of preferred shares. At December 31, 2007, the Company had issued 15,137,400 common shares (2006 - 14,931,744) and had not issued any preferred shares.

- (b) Stock options:

The Company has granted share options to officers, directors, employees and service providers to purchase common shares. The options have a maximum term of ten years and vest over periods of up to three years from the date of grant. Changes in the number of options outstanding, with their weighted average exercise prices, are summarized below:

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	1,105,000	\$ 2.70	645,000	\$ 2.89
Granted	655,000	4.46	810,000	2.60
Exercised	(205,656)	2.45	(75,000)	2.50
Cancelled or expired	(80,000)	3.46	(275,000)	2.90
Ending balance	1,474,344	\$ 3.48	1,105,000	\$ 2.70

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006

### 10. Share capital (continued):

(b) Stock options (continued):

At December 31, 2007, the stock options granted to officers, directors, employees and service providers to purchase common shares expire in the months noted as follows:

December 31, 2007	Number of options	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
January 2008	7,500	\$ 2.00	7,500	\$ 2.00
January 2009	90,000	4.40	90,000	4.40
June 2010	30,000	3.70	20,000	3.70
November 2010	90,000	1.30	90,000	1.30
December 2010	50,000	1.95	50,000	1.95
January 2011	199,902	2.00	199,902	2.00
August 2011	1,942	3.10	1,942	3.10
November 2012	50,000	4.35	-	-
December 2012	205,000	4.59	-	-
August 2014	140,000	4.90	20,000	4.90
November 2014	210,000	4.35	-	-
November 2015	100,000	2.84	50,000	2.84
December 2016	250,000	3.12	125,000	3.12
April 2017	50,000	3.30	-	-
Total	1,474,344	\$ 3.48	654,344	\$ 2.65

At December 31, 2006, the stock options granted to officers, directors, employees and service providers to purchase common shares expire in the months noted as follows:

December 31, 2006	Number of options	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
August 2007	25,000	\$ 2.00	25,000	\$ 2.00
January 2008	30,000	2.00	30,000	2.00
January 2009	90,000	4.40	90,000	4.40
June 2009	30,000	4.95	30,000	4.95
June 2010	30,000	3.70	10,000	3.70
November 2010	90,000	1.30	60,000	1.30
December 2010	50,000	1.95	27,500	1.95
January 2011	300,000	2.00	50,000	2.00
August 2011	60,000	3.10	-	-
November 2015	100,000	2.84	-	-
December 2016	300,000	3.12	-	-
Total	1,105,000	\$ 2.70	322,500	\$ 2.86

#### Fair value disclosures

The fair value of each stock option grant on the date of the grant, which is used to determine stock-based compensation expense, was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2007	2006
Expected option life (years)	4.52	5.15
Risk-free interest rate	4.19%	3.93%
Expected stock price volatility	58%	67%
Expected annual dividends per share	\$ -	\$ -

The average fair value of options granted during 2007 was \$2.23 per option (2006 - \$1.58 per option).

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006

### 11. Commitments:

The Company is committed to minimum rental payable under long-term operating leases for facilities and equipment excluding operating costs, as follows:

2008	\$	603,477
2009	\$	557,459
2010	\$	434,124
2011	\$	337,782
2012	\$	299,027

### 12. Discontinued operations:

In October, 2005, the Company announced the close of the operations of YSD. In December, 2005, the Company sold YSD land and buildings in Youngstown, Ohio. The remaining YSD assets were sold in 2006. Cash flow from YSD operations was nil during 2007 (2006 - \$4,802,235).

There was no operating activity related to YSD during 2007. YSD's net loss for the year ended December 31, 2006 was \$459,581.

### 13. Earnings per share:

The computations for basic and diluted common shares outstanding are as follows:

	2007	2006
Weighted average number of common shares outstanding:		
Basic	14,960,278	14,886,539
Effect of stock options	267,804	146,731
Diluted	15,228,082	15,033,270

### 14. Related party transactions:

- The Company leases an office building from the previous owners of G&B, one of which was a member of Global's Board of Directors at the time the lease was entered into. The lease payments are USD \$79,350 per year until expiry in 2010. Subsequent to year end, the Company acquired this office building.
- CADRI paid approximately \$33,000 for services provided by the interim President, to a company owned by the interim President of CADRI. Transaction costs of approximately \$710,000 relating to the CAD acquisition (note 3) and the credit facilities (note 8) were also paid to this company.
- In the normal course of business, CADRI purchased \$18,000 of inventory from a company owned by the interim President of CADRI. These inventory purchases were made under terms and conditions similar to those of CADRI's other inventory purchases.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006

### 15. Financial instruments:

The carrying values of the Company's financial assets and liabilities, consisting of cash and cash equivalents, accounts receivable, due from vendor, operating loan, accounts payable and accrued liabilities, and customer deposits, approximate their fair values due to the relatively short periods to maturity of the instruments. The carrying value of the floating rate long term debt is assumed to approximate its fair value as interest is based on market related variable rates.

(a) 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. The Company's revenues depend primarily on the level of spending by the major railways, original equipment manufacturers and transit authorities. The majority of the Company's customers consist of large companies in the railway industry with good credit standing. As a result, the requirement for credit risk related reserves for accounts receivable is minimal. The Company has no significant concentrations of credit risk with any one individual customer.

(b) Interest rate risk:

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial 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 cash and cash equivalents, operating loan and long term debt. Changes in variable interest rates could cause unanticipated fluctuations in the Company's operating results.

(c) Foreign currency risk:

The Company has a substantial number of transactions denominated in United States dollars and is exposed to risk with respect to fluctuations in exchange rates between Canadian and United States dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. As a result, variations in foreign exchange rates could cause unanticipated fluctuations in the Company's operating results.

(d) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company requires working capital to meet day-to-day operating activities. Management expects that the Company's cash flows from operating activities will be sufficient to meet these requirements. The Company also has available unused credit facilities in the amount of \$17,900,000 at December 31, 2007 to meet fluctuations in working capital requirements.

### 16. Segmented information:

The Company's operations are based on one dominant industry segment which is primarily the manufacture, remanufacture and sale of railway equipment. The following is a summary of the Company's sales, property, plant and equipment, intangible assets, and goodwill, by segment.

	United States	Canada	2007
Sales	\$ 26,768,463	\$ 10,044,223	\$ 36,812,686
Property, plant and equipment	\$ 3,580,119	\$ 8,857,284	\$ 12,437,403
Intangible assets	\$ -	\$ 1,036,875	\$ 1,036,875
Goodwill	\$ 8,194,136	\$ 6,584,137	\$ 14,778,273

	United States	Canada	2006
Sales	\$ 27,668,419	\$ 4,215,484	\$ 31,883,903
Property, plant and equipment	\$ 3,873,992	\$ 359,443	\$ 4,233,435
Intangible assets	\$ -	\$ -	\$ -
Goodwill	\$ 8,194,136	\$ 3,555,695	\$ 11,749,831

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2007 and 2006

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### 17. Future changes in accounting policies:

(a) Capital disclosures:

In December 2006, the CICA issued a new handbook section, *1535 - Capital Disclosures*, which requires an entity to disclose its objectives, policies and processes for managing capital. This new standard is effective for the Company beginning January 1, 2008.

(b) Financial instruments:

In December 2006, the CICA issued two new handbook sections, *3862 - Financial Instruments - Disclosures*, and *3863 - Financial Instruments - Presentation*. These new standards are effective for the Company beginning January 1, 2008.

(c) Inventory:

In June 2007, the CICA issued a new handbook section, *3031 - Inventories*, which requires inventory to be measured at the lower of cost and net realizable value. The standard provides guidance on the types of costs that can be capitalized and requires the reversal of previous inventory write downs if economic circumstances have changed to support higher inventory values. This standard is effective for interim and annual periods relating to fiscal years beginning on or after January 1, 2008. Commencing in the first quarter of 2008, the Company is required to disclose the amount of inventory recognized in cost of sales each quarter, as well as any inventory write downs or reversals each quarter.

The Company is currently reviewing the impact of these new standards on the presentation of the 2008 consolidated financial statements.

### 18. Comparative figures:

Certain of the 2006 comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.