

Interim Consolidated Financial Statements of

GLOBAL RAILWAY INDUSTRIES LTD.

Three months ended March 31, 2008
(Unaudited)

GLOBAL RAILWAY INDUSTRIES LTD.

Interim Consolidated Balance Sheet

March 31, 2008, with comparative figures as at December 31, 2007

	2008	2007
	(unaudited)	(audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 165,535	\$ 894,458
Accounts receivable	10,279,578	11,521,362
Due from vendor (note 3)	1,774,143	1,774,143
Inventories (note 4)	14,521,992	14,727,658
Costs and estimated earnings on uncompleted contracts in excess of billings (note 5)	584,613	-
Prepaid expenses	766,905	172,147
Income taxes receivable	212,684	-
Future income taxes (note 6)	400,923	272,578
	<u>28,706,373</u>	<u>29,362,346</u>
Property, plant and equipment (note 7)	13,519,766	12,437,403
Intangible assets (note 8)	1,010,625	1,036,875
Future income taxes (note 6)	966,095	956,794
Goodwill	14,800,416	14,778,273
	<u>\$ 59,003,275</u>	<u>\$ 58,571,691</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan (note 9)	\$ 700,000	\$ 100,000
Accounts payable and accrued liabilities	6,762,160	6,291,453
Billings on uncompleted contracts in excess of costs and estimated earnings (note 5)	724,522	1,000,000
Customer deposits	-	1,000,000
Future income taxes (note 6)	34,200	-
Income taxes payable	-	286,375
	<u>8,220,882</u>	<u>8,677,828</u>
Long-term debt (note 9)	12,963,618	13,439,705
Customer deposits (note 13b)	1,000,000	1,000,000
Future income taxes (note 6)	1,821,942	1,715,955
Shareholders' equity:		
Share capital (note 11)	26,104,672	26,073,957
Contributed surplus	1,705,706	1,528,403
Accumulated other comprehensive loss	(3,164,483)	(3,573,497)
Retained earnings	10,350,938	9,709,340
	<u>34,996,833</u>	<u>33,738,203</u>
Commitments (note 12)		
Contingencies (note 13)		
Subsequent event (note 19)		
	<u>\$ 59,003,275</u>	<u>\$ 58,571,691</u>

See accompanying notes to the interim consolidated financial statements.

On behalf of the Board:

"signed" Terry McManaman
Chairman of the Board

"signed" Garry Zurowski
Chairman of the Audit Committee

GLOBAL RAILWAY INDUSTRIES LTD.

Interim Consolidated Statements of Comprehensive Income

Three months ended March 31, 2008, with comparative figures for 2007.
(Unaudited)

	2008		2007	
Sales	\$	15,519,107	\$	9,493,045
Cost of goods sold		11,031,216		5,529,537
		4,487,891		3,963,508
Operating expenses:				
Salaries		1,658,476		1,177,386
General and administration		1,191,367		775,953
		2,849,843		1,953,339
Other expenses (income):				
Amortization		298,788		151,709
Interest, net		(17,957)		(47,832)
Interest on long-term debt		199,954		-
Foreign exchange		38,741		26,603
		519,526		130,480
Earnings before income taxes		1,118,522		1,879,689
Income tax provision (recovery) (note 6):				
Current		524,212		209,768
Future		(47,288)		481,476
		476,924		691,244
Net earnings		641,598		1,188,445
Other comprehensive income:				
Unrealized gain (loss) on translating financial statements of a self-sustaining foreign operation		409,014		(175,547)
Comprehensive income	\$	1,050,612	\$	1,012,898
Net earnings per share (note 14):				
Basic	\$	0.04	\$	0.08
Diluted	\$	0.04	\$	0.08

See accompanying notes to the interim consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Interim Consolidated Statements of Shareholders' Equity

Three months ended March 31, 2008 with comparative figures for the year ended December 31, 2007
(unaudited)

	Number of common shares issued	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings
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
Stock-based compensation	-	-	186,518	-	-
Options exercised	12,500	30,715	(9,215)	-	-
Change in accumulated foreign currency translation adjustment	-	-	-	409,014	-
Net earnings	-	-	-	-	641,598
Balance at March 31, 2008	15,149,900	\$ 26,104,672	\$ 1,705,706	\$ (3,164,483)	\$ 10,350,938

See accompanying notes to the consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Interim Consolidated Statements of Cash Flows

Three months ended March 31, 2008, with comparative figures for 2007.

(Unaudited)

	2008	2007
Cash flows from (used in):		
Operating activities:		
Net earnings	\$ 641,598	\$ 1,188,445
Items not involving cash:		
Future income tax provision	(47,288)	481,476
Stock-based compensation expense	186,518	156,955
Amortization of plant and equipment	272,538	151,709
Amortization of intangibles	26,250	-
Interest expense	23,913	-
Gain on sale of property, plant, and equipment	-	(36,311)
Unrealized foreign exchange gain (loss)	49,828	(23,788)
Changes in non-cash operating working capital:		
Accounts receivable	1,241,784	(1,347,641)
Costs and estimated earnings on uncompleted contracts in excess of billings	(584,613)	-
Inventories	205,666	(553,957)
Prepaid expenses	(594,758)	(94,232)
Income taxes receivable	(212,684)	-
Accounts payable and accrued liabilities	470,708	386,650
Billings on uncompleted contracts in excess of costs and estimated earnings	(275,478)	-
Customer deposits	(1,000,000)	-
Income taxes payable	(286,375)	147,821
Unrealized foreign currency translation gain (loss)	284,522	(175,547)
	402,129	281,580
Investing activities:		
Acquisition (note 3)	(22,143)	-
Purchase of property, plant, and equipment	(1,230,409)	(154,907)
Proceeds from disposal of property, plant, and equipment	-	57,153
	(1,252,552)	(97,754)
Financing activities:		
Increase in operating loan	600,000	-
Decrease in long-term debt	(500,000)	-
Issuance of share capital	21,500	-
	121,500	-
Increase (decrease) in cash and cash equivalents	(728,923)	183,826
Cash and cash equivalents, beginning of period	894,458	6,830,949
Cash and cash equivalents, end of period	\$ 165,535	\$ 7,014,775
Cash and cash equivalents comprised of:		
Cash	\$ 140,535	\$ 2,973,675
Term deposit	\$ 25,000	\$ 4,041,100
Supplementary information:		
Interest paid	\$ 239,842	\$ 585
Income taxes paid	\$ 1,047,790	\$ 61,947

See accompanying notes to the interim consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements

Three months ended March 31, 2008
(Unaudited)

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 interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles following the same accounting policies as used in the Company's audited consolidated financial statements for the year ended December 31, 2007, except as described in note 2. Certain information and disclosures normally required to be included in the notes to the annual consolidated financial statements may have been condensed or omitted. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2007.

The consolidated interim financial statements include the accounts of Global Railway Industries Ltd. and its wholly-owned subsidiaries, Bach-Simpson Corporation, 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. 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 net realizable value, 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

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 Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2008

(Unaudited)

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 interim 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, production contracts and longer term 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. Any excess of progress billings over earned revenue or earned revenue over progress billings on the engineering service contracts, production contracts and longer term remanufacturing contracts is carried as "billings on uncompleted contracts in excess of costs and estimated earnings" and "costs and estimated earnings in excess of billings" respectively in the consolidated financial statements.

The Company charges any anticipated losses on contracts and units of production to earnings as soon as they are identified. The Company also provides for the estimated cost of product warranties at the time of revenue recognition.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2008

(Unaudited)

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 period. 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 period.

(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 March 31, 2008, 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 Interim 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 Interim Consolidated Statements of Comprehensive Income.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2008
(Unaudited)

2. Changes in accounting policies:

In the first quarter of 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

- (a) *1535 - Capital Disclosures*, establishes standards for disclosing information about an entity's capital and how it is managed. It requires the disclosure of information about an entity's objectives, policies and processes for managing capital. These new disclosures are included in note 10 to the Company's interim consolidated financial statements.
- (b) *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. The adoption of this standard did not have a material impact on the Company's consolidated financial statements. The new disclosures are included in note 4 to the Company's interim consolidated financial statements.
- (c) *Section 3862 - Financial Instruments - Disclosures*, requires entities to provide disclosures in the financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The new disclosures are included in note 16 to the Company's interim consolidated financial statements.
- (d) *Section 3863 - Financial Instruments - Presentation*, establishes standards for presentation of financial instruments and nonfinancial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The adoption of these standards did not have any impact on the classification and valuation of the Company's financial instruments. The new disclosures are included in note 16 to the Company's interim consolidated financial statements.

The Company adopted Sections 1535, 3031, 3862, and 3863 on a prospective basis with no restatement to prior period financial statements.

Other new accounting standards issued by the Canadian Institute of Chartered Accountants were as follows:

- (a) *Section 3064 - Goodwill and intangible assets*, establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company will adopt this new standard in the first quarter of 2009 and is currently assessing the impact of adoption on its consolidated financial statements.
- (b) In February 2008, the CICA's Accounting Standard Board announced that Canadian public companies will adopt International Financial Reporting Standards as issued by the International Accounting Standards Board effective January 1, 2011. The Company is currently assessing the impact of adoption on its consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2008
(Unaudited)

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 9. 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 Interim Consolidated Balance Sheets. 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 to recover 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:

	March 31, 2008	December 31, 2007
Cash and cash equivalents	\$ 720,825	\$ 720,825
Accounts receivable	2,606,101	2,606,101
Inventory	7,905,832	7,905,832
Prepaid expenses	278,271	278,271
Property, plant and equipment	8,299,375	8,299,375
Intangible assets	1,050,000	1,050,000
Goodwill	3,050,585	3,028,442
Total assets	23,910,989	23,888,846
Bank loan	(840,000)	(840,000)
Accounts payable and accrued liabilities	(1,917,672)	(1,917,672)
Net assets acquired	21,153,317	21,131,174
Consideration paid	(22,000,000)	(22,000,000)
Transaction costs	(927,460)	(905,317)
Due from vendor	\$ (1,774,143)	\$ (1,774,143)

4. Inventories:

	March 31, 2008	December 31, 2007
Finished goods	\$ 9,505,607	\$ 8,411,410
Work in progress	2,876,787	2,529,845
Raw materials	2,139,598	3,786,403
	\$ 14,521,992	\$ 14,727,658

During the first quarter of 2008, the Company expensed \$5,782,141 of inventory, including a net inventory provision of \$5,684 to write-down the value of inventory to net realizable value. There were no inventory write-down reversals during the quarter.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2008

(Unaudited)

5. Costs and estimated earnings on uncompleted contracts:

	March 31, 2008	December 31, 2007
Costs and estimated earnings on uncompleted contracts	\$ 1,759,360	\$ -
Less billings to date	(1,899,269)	(1,000,000)
	<u>\$ (139,909)</u>	<u>\$ (1,000,000)</u>
Costs and estimated earnings on uncompleted contracts in excess of billings	\$ 584,613	\$ -
Billings on uncompleted contracts in excess of costs and estimated earnings	(724,522)	(1,000,000)
	<u>\$ (139,909)</u>	<u>\$ (1,000,000)</u>

6. 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:

	March 31, 2008	March 31, 2007
Earnings before income taxes	\$ 1,118,522	\$ 1,879,689
Expected income tax rate	31.5%	34.0%
Computed expected income tax expense	352,334	639,094
Difference resulting from:		
Non-deductible items	40,492	9,380
U.S. taxes	85,085	79,022
Other	(987)	(36,252)
Provision for income taxes	<u>\$ 476,924</u>	<u>\$ 691,244</u>

The expected income tax rate reflects the combined Federal and Provincial 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:

	March 31, 2008	December 31, 2007
Future tax assets:		
Financing costs	\$ 25,692	\$ 49,552
Plant and equipment and intangible assets principally due to differences in depreciation and amortization	56,209	62,465
Net operating loss carryforwards	1,247,382	1,080,914
Net capital loss carryforwards	154,908	154,908
Other	37,735	36,441
	<u>1,521,926</u>	<u>1,384,280</u>
Valuation allowance	<u>(154,908)</u>	<u>(154,908)</u>
	1,367,018	1,229,372
Future tax liabilities:		
Scientific research and experimental development credits	34,200	-
Management contract payments	1,178,069	1,137,674
Plant and equipment and intangible assets principally due to differences in depreciation and amortization	643,873	578,281
	<u>1,856,142</u>	<u>1,715,955</u>
Net future income tax liability	<u>\$ (489,124)</u>	<u>\$ (486,583)</u>

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2008
(Unaudited)

6. Income taxes (continued):

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

	March 31, 2008	December 31, 2007
Current assets	\$ 400,923	\$ 272,578
Long-term assets	966,095	956,794
Current liabilities	(34,200)	-
Long-term liabilities	(1,821,942)	(1,715,955)
	\$ (489,124)	\$ (486,583)

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 \$3,921,000 which can be carried forward to reduce future Canadian taxable income. The losses will expire in 2008 to 2028. 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, 2007 - \$155,000) has been recorded against the future tax benefit of the capital losses.

7. Property, plant and equipment:

March 31, 2008	Cost	Accumulated amortization	Net book value
Land	\$ 350,378	\$ -	\$ 350,378
Buildings	7,582,595	223,004	7,359,591
Machinery and equipment	6,623,015	1,937,712	4,685,303
Computers	981,092	513,771	467,321
Vehicles	141,094	94,934	46,160
Furniture	313,130	143,452	169,678
Leasehold improvements	553,073	111,738	441,335
	\$ 16,544,377	\$ 3,024,611	\$ 13,519,766

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
	\$ 15,150,067	\$ 2,712,664	\$ 12,437,403

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2008

(Unaudited)

8. Intangible assets:

March 31, 2008	Cost	Accumulated amortization	Net book value
Customer relationships, trade names and trademarks	\$ 1,050,000	\$ 39,375	\$ 1,010,625

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

9. 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 March 31, 2008, transaction and financing costs in the amount of approximately \$536,000 (December 31, 2007 - \$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:

	March 31, 2008	December 31, 2007
Operating facility	\$ 700,000	\$ 100,000
Term facility	\$ 13,500,000	\$ 14,000,000
Hedge facility	\$ -	\$ -
Credit card facility	\$ -	\$ -

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. This standby letter of credit constitutes a borrowing under the Company's operating facility.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2008
(Unaudited)

10. Capital risk management:

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to provide competitive returns to its shareholders. The Company defines capital that it manages as the aggregate of its shareholders' equity, which is comprised of issued capital, contributed surplus, accumulated other comprehensive loss and retained earnings.

The Company manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue or repay long-term debt or issue shares, or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets. The Company monitors debt leverage ratios as part of the management of liquidity and shareholders' return and to support future development of the business.

The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2007.

11. 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 March 31, 2008, the Company had issued 15,149,900 common shares (December 31, 2007 - 15,137,400) 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:

	March 31, 2008		December 31, 2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	1,474,344	\$ 3.48	1,105,000	\$ 2.70
Granted	50,000	4.25	655,000	4.46
Exercised	(12,500)	1.72	(205,656)	2.45
Cancelled or expired	-	-	(80,000)	3.46
Ending balance	1,511,844	\$ 3.52	1,474,344	\$ 3.48

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2008
(Unaudited)

11. Share capital (continued):

(b) Stock options (continued):

At March 31, 2008, the stock options granted to officers, directors, employees and service providers to purchase common shares expire in the months noted as follows:

March 31, 2008	Number of options	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
January 2009	90,000	\$ 4.40	90,000	\$ 4.40
June 2010	30,000	3.70	20,000	3.70
November 2010	85,000	1.30	85,000	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	-	-
March 2013	50,000	4.25	-	-
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	1,511,844	\$ 3.52	641,844	\$ 2.67

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

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2008

(Unaudited)

12. Commitments:

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

Remainder of 2008	\$	357,887
2009	\$	468,328
2010	\$	344,993
2011	\$	333,936
2012	\$	298,104
2013	\$	285,000

13. Contingencies:

- (a) The Company is a party to management employment contracts which requires payment of a certain amount to an executive 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 up to approximately USD \$1,686,000.
- (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 March 31, 2008, 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 March 31, 2008, no amount has been accrued in the interim consolidated financial statements.

14. Earnings per share:

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

	March 31, 2008	March 31, 2007
Weighted average number of common shares outstanding:		
Basic	15,144,543	14,931,744
Effect of stock options	284,887	186,915
Diluted	15,429,430	15,118,659

15. Related party transactions:

- (a) CADRI paid approximately \$94,000 for management services provided by a company owned by the interim President of CADRI (2007 - \$ nil). During the year ending December 31, 2007, transaction costs of approximately \$710,000 relating to the CAD acquisition (note 3) and the credit facilities (note 9) were also paid to this company (2008 - \$ nil).
- (b) In the normal course of business, CADRI purchased approximately US \$30,000 of inventory from a company owned by the interim President of CADRI (2007 - \$nil). These inventory purchases were made under terms and conditions comparable to those of CADRI's other inventory purchases.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2008

(Unaudited)

16. Financial instruments and financial risk management:

(a) 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.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The classification and fair values of the Company's financial instruments are as follows:

	March 31, 2008		December 31, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets held for trading:				
Cash and cash equivalents	\$ 165,535	\$ 165,535	\$ 894,458	\$ 894,458
Loans and receivables:				
Accounts receivable	\$ 10,279,578	\$ 10,279,578	\$ 11,521,362	\$ 11,521,362
Due from vendor	\$ 1,774,143	\$ 1,774,143	\$ 1,774,143	\$ 1,774,143
Other financial liabilities:				
Accounts payable and accrued liabilities	\$ 6,762,160	\$ 6,762,160	\$ 6,291,453	\$ 6,291,453
Customer deposits	\$ 1,000,000	\$ 1,000,000	\$ 2,000,000	\$ 2,000,000
Operating loan	\$ 700,000	\$ 700,000	\$ 100,000	\$ 100,000
Long-term debt	\$ 12,963,618	\$ 13,500,000	\$ 13,439,705	\$ 14,000,000

At March 31, 2008, transaction and financing costs in the amount of approximately \$536,000 (December 31, 2007 - \$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.

At March 31, 2008, all of the Company's financial instruments were recorded on the Interim Consolidated Balance Sheets at amortized cost with the exception of cash and cash equivalents which were recorded at fair value. The Company did not have any available for sale or held to maturity financial instruments during the period ended March 31, 2008 or during the year ended December 31, 2007.

(b) Financial risk management:

The Company has exposure to credit risk, market risk and liquidity risk. The Company's primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis. Risk management strategies, as discussed below, are designed and implemented to ensure the Company's risks and the related exposure are consistent with the business objectives and risk tolerance.

(i) Credit risk:

Credit risk represents the financial loss that the Company would experience if a counterparty to a financial instrument held by the Company failed to meet its obligations in accordance with the terms and conditions of its contracts with the Company or if there is a concentration of transactions carried out with the same counterparty. The carrying amount of financial assets represents the maximum credit exposure.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2008

(Unaudited)

16. Financial instruments and financial risk management (continued):

(b) Financial risk management (continued):

(i) Credit risk (continued):

The Company's credit risk is primarily attributable to its accounts receivable. The amounts disclosed in the Interim Consolidated Balance Sheets are net of allowances for doubtful accounts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company establishes an allowance for doubtful accounts that represents its estimate of expected losses in respect of accounts receivable. The main component of this allowance relates to individually significant exposures for accounts receivable that are considered impaired, which is defined as amounts outstanding beyond normal credit terms and conditions for the respective customers and, based upon management's evaluation, a risk of non-payment exists.

The Company believes that the concentration of credit risk of accounts receivable is limited due to its broad customer base, primarily consisting of large North American companies in the railway industry with good credit standing.

The Company believes that its allowance for doubtful accounts is sufficient to reflect the related credit risk, indicated as follows:

	March 31, 2008	December 31, 2007
Neither impaired nor past due	\$ 5,467,396	\$ 8,028,257
Impaired	267,302	290,212
Not impaired and past due in the following periods:		
Within 30 days	3,471,204	1,992,087
31 to 60 days	347,998	921,461
61 to 90 days	388,927	250,262
Over 90 days	330,036	150,452
Allowance for doubtful accounts	(267,302)	(290,212)
Trade receivables	10,005,561	11,342,519
Other receivables	274,017	178,843
Total accounts receivable	\$ 10,279,578	\$ 11,521,362

During the first quarter of 2008, the Company charged \$26,019 to allowance for doubtful accounts (\$216 for the same period in 2007). Also during the first quarter of 2008, the Company increased allowance for doubtful accounts in the amount of \$3,109 with an offset to general and administration expense (\$ nil for the same period in 2007).

(ii) Market risk:

Market risk is the risk of loss that may arise from changes in market prices, such as foreign exchange rates and interest rates, which will affect the Company's income or the value of its financial instruments.

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. As at March 31, 2008, a 100 basis point change in the Bank of Canada prime lending rate would result in a change in the Company's quarterly after tax earnings of approximately \$24,000.

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. As at March 31, 2008, a 1% strengthening of the United States dollar against the Canadian dollar would result in an increase in the Company's quarterly after tax earnings of approximately \$12,000, and an increase in other comprehensive income of \$143,000.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2008
(Unaudited)

(b) Financial risk management (continued):

(iii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 17. It also manages liquidity risk by continuously monitoring cash flows to ensure that it will always have sufficient liquidity to meet its liabilities when due. At March 31, 2008, the undrawn portion of the Company's bank credit facility was \$16,800,000 subject to meeting agreed to covenants. Utilizations of the credit facility include advances borrowed under the bank credit facility and issuances of letters of credit.

The following are the contractual maturities, excluding interest payments, reflecting undiscounted future cash disbursements of the Company's financial liabilities at March 31, 2008:

	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 6,762,160	\$ -	\$ -	\$ -
Operating loan	700,000	-	-	-
Term loan	-	-	13,500,000	-
	\$ 7,462,160	\$ -	\$ 13,500,000	\$ -

17. 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	2008
Sales for the first quarter ended March 31	\$ 8,029,923	\$ 7,489,184	\$ 15,519,107
Property, plant and equipment at March 31	\$ 4,191,245	\$ 9,328,521	\$ 13,519,766
Intangible assets at March 31	\$ -	\$ 1,010,625	\$ 1,010,625
Goodwill at March 31	\$ 8,194,136	\$ 6,606,280	\$ 14,800,416

	United States	Canada	2007
Sales for the first quarter ended March 31	\$ 6,940,256	\$ 2,552,789	\$ 9,493,045
Property, plant and equipment at December 31	\$ 3,580,119	\$ 8,857,284	\$ 12,437,403
Intangible assets at December 31	\$ -	\$ 1,036,875	\$ 1,036,875
Goodwill at December 31	\$ 8,194,136	\$ 6,584,137	\$ 14,778,273

18. Comparative figures:

Certain of the 2007 comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

19. Subsequent event:

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. Subsequent to March 31, 2008, the Company reached a tentative settlement with the plaintiff for the total amount of \$175,000. This amount has been accrued in the March 31, 2008 interim consolidated financial statements.