

Interim Consolidated Financial Statements of

GLOBAL RAILWAY INDUSTRIES LTD.

Six months ended June 30, 2008
(Unaudited)

GLOBAL RAILWAY INDUSTRIES LTD.

Interim Consolidated Balance Sheets

June 30, 2008 and December 31, 2007

	June 30, 2008	December 31, 2007
	(unaudited)	(audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 478,730	\$ 894,458
Accounts receivable	9,605,151	11,521,362
Due from vendor (note 3)	1,774,143	1,774,143
Inventories (note 4)	14,587,456	14,727,658
Costs and estimated earnings on uncompleted contracts in excess of billings (note 5)	1,213,311	-
Prepaid expenses	904,670	172,147
Income taxes receivable	15,976	-
Future income taxes (note 6)	46,923	272,578
	<u>28,626,360</u>	<u>29,362,346</u>
Property, plant and equipment (note 7)	22,613,026	12,437,403
Intangible assets (note 8)	741,250	1,036,875
Future income taxes (note 6)	1,880,869	956,794
Goodwill	11,990,935	14,778,273
	<u>\$ 65,852,440</u>	<u>\$ 58,571,691</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Operating loan (note 9)	\$ 900,000	\$ 100,000
Accounts payable and accrued liabilities	6,611,788	6,291,453
Billings on uncompleted contracts in excess of costs and estimated earnings (note 5)	297,363	1,000,000
Customer deposits	-	1,000,000
Income taxes payable	-	286,375
	<u>7,809,151</u>	<u>8,677,828</u>
Long-term debt (note 9)	17,487,939	13,439,705
Customer deposits (note 14b)	1,000,000	1,000,000
Environmental liability (note 10)	1,312,000	-
Future income taxes (note 6)	2,851,328	1,715,955
Shareholders' equity:		
Share capital (note 12)	26,322,316	26,073,957
Contributed surplus	1,831,882	1,528,403
Accumulated other comprehensive loss	(3,212,902)	(3,573,497)
Retained earnings	10,450,726	9,709,340
	<u>35,392,022</u>	<u>33,738,203</u>
Commitments (note 13)		
Contingencies (note 14)		
	<u>\$ 65,852,440</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 and six months ended June 30, 2008 and 2007
(Unaudited)

	Three months		Six months	
	2008	2007	2008	2007
Sales	\$ 14,615,870	\$ 9,215,968	\$ 30,134,977	\$ 18,709,013
Cost of goods sold	10,483,732	5,396,158	21,514,948	10,925,695
	4,132,138	3,819,810	8,620,029	7,783,318
Operating expenses:				
Salaries	1,721,738	1,191,689	3,380,214	2,369,075
General and administration	1,417,101	1,026,814	2,608,468	1,802,767
	3,138,839	2,218,503	5,988,682	4,171,842
Other expenses (income):				
Amortization	504,347	134,487	803,135	286,196
Interest, net	30,227	(161,177)	12,270	(209,009)
Interest on long-term debt	175,346	-	375,300	-
Foreign exchange	57,083	230,948	95,824	257,551
	767,003	204,258	1,286,529	334,738
Earnings before income taxes	226,296	1,397,049	1,344,818	3,276,738
Income tax provision (recovery) (note 6):				
Current	514,878	133,924	1,039,090	343,692
Future	(388,370)	176,497	(435,658)	657,973
	126,508	310,421	603,432	1,001,665
Net earnings	99,788	1,086,628	741,386	2,275,073
Other comprehensive income:				
Unrealized gain (loss) on translating financial statements of a self-sustaining foreign operation	(48,419)	(1,059,938)	360,595	(1,235,485)
Comprehensive income	\$ 51,369	\$ 26,690	\$ 1,101,981	\$ 1,039,588
Net earnings per share (note 15):				
Basic	\$ 0.01	\$ 0.07	\$ 0.05	\$ 0.15
Diluted	\$ 0.01	\$ 0.07	\$ 0.05	\$ 0.15

See accompanying notes to the interim consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Interim Consolidated Statements of Shareholders' Equity

Six months ended June 30, 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	-	-	382,838	-	-
Options exercised	87,500	248,359	(79,359)	-	-
Change in accumulated foreign currency translation adjustment	-	-	-	360,595	-
Net earnings	-	-	-	-	741,386
Balance at June 30, 2008	15,224,900	\$ 26,322,316	\$ 1,831,882	\$ (3,212,902)	\$ 10,450,726

See accompanying notes to the consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Interim Consolidated Statements of Cash Flows

Three months and six months ended June 30, 2008 and 2007
(Unaudited)

	Three months		Six months	
	2008	2007	2008	2007
Cash flows from (used in):				
Operating activities:				
Net earnings	\$ 99,788	\$ 1,086,628	\$ 741,386	\$ 2,275,073
Items not involving cash:				
Future income tax provision	(388,370)	176,497	(435,658)	657,973
Stock-based compensation expense	196,320	192,507	382,838	349,462
Amortization of plant and equipment	285,597	134,487	558,135	286,196
Amortization of intangibles	218,750	-	245,000	-
Interest expense	24,321	-	48,234	-
Loss (gain) on sale of property, plant, and equipment	5,654	-	5,654	(36,311)
Unrealized foreign exchange loss	19,783	200,879	69,611	212,393
Changes in non-cash operating working capital:				
Accounts receivable	674,427	413,326	1,916,211	(934,315)
Costs and estimated earnings on uncompleted contracts in excess of billings	(628,698)	-	(1,213,311)	-
Inventories	(65,464)	(33,267)	140,202	(587,224)
Prepaid expenses	(137,765)	(251,972)	(732,523)	(346,204)
Income taxes receivable	196,708	-	(15,976)	-
Accounts payable and accrued liabilities	(150,373)	219,062	320,335	776,998
Billings on uncompleted contracts in excess of costs and estimated earnings	(427,159)	-	(702,637)	-
Customer deposits	-	-	(1,000,000)	-
Income taxes payable	-	76,287	(286,375)	52,822
Unrealized foreign currency translation gain (loss)	(19,662)	(1,059,938)	264,860	(1,235,485)
	(96,143)	1,154,496	305,986	1,471,378
Investing activities:				
Acquisition (note 3)	(85,619)	-	(107,762)	-
Purchase of property, plant, and equipment	(4,352,943)	(82,030)	(5,583,352)	(272,239)
Proceeds from disposal of property, plant, and equipment	400	-	400	57,153
	(4,438,162)	(82,030)	(5,690,714)	(215,086)
Financing activities:				
Increase in operating loan	200,000	-	800,000	-
Increase in long-term debt	4,500,000	-	4,000,000	-
Issuance of share capital	147,500	-	169,000	-
	4,847,500	-	4,969,000	-
Increase (decrease) in cash and cash equivalents	313,195	1,072,466	(415,728)	1,256,292
Cash and cash equivalents, beginning of period	165,535	7,014,775	894,458	6,830,949
Cash and cash equivalents, end of period	\$ 478,730	\$ 8,087,241	\$ 478,730	\$ 8,087,241
Cash and cash equivalents comprised of:				
Cash	\$ 453,730	\$ 8,037,241	\$ 453,730	\$ 8,037,241
Term deposit	\$ 25,000	\$ 50,000	\$ 25,000	\$ 50,000
Supplementary information:				
Interest paid	\$ 191,823	\$ 586	\$ 407,752	\$ 1,171
Income taxes paid	\$ 329,040	\$ 228,923	\$ 1,376,830	\$ 287,558

See accompanying notes to the interim consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements

Six months ended June 30, 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 interim consolidated 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 - 20 years
Furniture	10 years
Computers	5 years
Vehicles	5 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
Customer relationships	10 years
Trade names and trademarks	5 years
Non-compete agreements	5 years
Option to purchase land and building	1 year

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)

Six months ended June 30, 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)

Six months ended June 30, 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 June 30, 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)

Six months ended June 30, 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 11 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 17 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 17 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)

Six months ended June 30, 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 based on the estimated fair market values determined by the Company and independent, third party valuers. Management is still finalizing 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:

	June 30, 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	11,940,475	8,299,375
Intangible assets	1,107,000	1,050,000
Future tax asset - long-term	178,500	-
Goodwill	270,082	3,028,442
Total assets	25,007,086	23,888,846
Bank loan	(840,000)	(840,000)
Accounts payable and accrued liabilities	(1,917,672)	(1,917,672)
Future tax liability - long-term	(1,010,478)	-
Net assets acquired	21,238,936	21,131,174
Cash consideration paid	(22,000,000)	(22,000,000)
Transaction costs	(1,013,079)	(905,317)
Due from vendor	\$ (1,774,143)	\$ (1,774,143)

4. Inventories:

	June 30, 2008	December 31, 2007
Finished goods	\$ 11,445,353	\$ 10,539,291
Work in progress	1,429,834	2,529,845
Raw materials	1,712,269	1,658,522
Total	\$ 14,587,456	\$ 14,727,658

During the first six months of 2008, the Company expensed \$11,633,611 of inventory, including a net inventory provision of \$17,679 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)

Six months ended June 30, 2008
(Unaudited)

5. Costs and estimated earnings on uncompleted contracts:

	June 30, 2008	December 31, 2007
Costs and estimated earnings on uncompleted contracts	\$ 2,825,270	\$ -
Less billings to date	(1,909,322)	(1,000,000)
	<u>\$ 915,948</u>	<u>\$ (1,000,000)</u>
Costs and estimated earnings on uncompleted contracts in excess of billings	\$ 1,213,311	\$ -
Billings on uncompleted contracts in excess of costs and estimated earnings	(297,363)	(1,000,000)
	<u>\$ 915,948</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:

	Three months		Six months	
	2008	2007	2008	2007
Earnings before income taxes	\$ 226,296	\$ 1,397,049	\$ 1,344,818	\$ 3,276,738
Expected income tax rate	31.5%	34.0%	31.5%	34.0%
Computed expected income tax expense	71,283	474,997	423,618	1,114,091
Difference resulting from:				
Non-deductible items	7,256	58,523	47,749	23,044
U.S. taxes	66,565	64,604	123,687	144,408
Other	(18,596)	(287,703)	8,378	(279,878)
Provision for income taxes	<u>\$ 126,508</u>	<u>\$ 310,421</u>	<u>\$ 603,432</u>	<u>\$ 1,001,665</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:

	June 30, 2008	December 31, 2007
Future tax assets:		
Financing costs	\$ 16,314	\$ 49,552
Plant and equipment and intangible assets principally due to differences in depreciation and amortization	50,059	62,465
Net operating loss carryforwards	1,418,981	1,080,914
Net capital loss carryforwards	36,916	154,908
Environmental liability related to land and building	354,240	-
Other	51,282	36,441
	<u>1,927,792</u>	<u>1,384,280</u>
Valuation allowance	-	(154,908)
	<u>1,927,792</u>	<u>1,229,372</u>
Future tax liabilities:		
Management contract payments	1,170,267	1,137,674
Plant and equipment and intangible assets principally due to differences in depreciation and amortization	1,681,061	578,281
	<u>2,851,328</u>	<u>1,715,955</u>
Net future income tax liability	<u>\$ (923,536)</u>	<u>\$ (486,583)</u>

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2008
(Unaudited)**6. Income taxes (continued):**

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

	June 30, 2008	December 31, 2007
Current assets	\$ 46,923	\$ 272,578
Long-term assets	1,880,869	956,794
Current liabilities	-	-
Long-term liabilities	(2,851,328)	(1,715,955)
	<u>\$ (923,536)</u>	<u>\$ (486,583)</u>

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. Accordingly, a valuation allowance of \$155,000 which was previously recorded against the future tax benefit of the capital losses has been reversed.

The Company has non-capital losses of approximately \$4,711,000 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 \$114,000 which can be carried forward indefinitely to reduce future taxable capital gains.

7. Property, plant and equipment:

June 30, 2008	Cost	Accumulated amortization	Net book value
Land	\$ 4,667,738	\$ -	\$ 4,667,738
Buildings	8,345,537	249,742	8,095,795
Machinery and equipment	10,987,776	2,107,517	8,880,259
Computers	897,555	533,227	364,328
Vehicles	106,889	94,053	12,836
Furniture	292,917	147,898	145,019
Leasehold improvements	569,947	122,896	447,051
	<u>\$ 25,868,359</u>	<u>\$ 3,255,333</u>	<u>\$ 22,613,026</u>

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
	<u>\$ 15,150,067</u>	<u>\$ 2,712,664</u>	<u>\$ 12,437,403</u>

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2008
(Unaudited)

8. Intangible assets:

June 30, 2008	Cost	Accumulated amortization	Net book value
Customer relationships	\$ 380,000	\$ 23,750	\$ 356,250
Trade names and trademarks	230,000	28,750	201,250
Non-compete agreements	210,000	26,250	183,750
Option to purchase land and building	179,375	179,375	-
	<u>\$ 999,375</u>	<u>\$ 258,125</u>	<u>\$ 741,250</u>

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 principal 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 principal 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 the Company 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 June 30, 2008, transaction and financing costs in the amount of approximately \$512,000 (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:

	June 30, 2008	December 31, 2007
Operating facility	\$ 900,000	\$ 100,000
Term facility	\$ 18,000,000	\$ 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.

During the second quarter of 2008, a waiver was granted by the Lenders allowing the Company to exceed the capital expenditure cap set forth under the credit agreement.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2008
(Unaudited)

10. Acquisition of CADRI land and building:

In June of 2008, CADRI exercised an option to purchase the land and building it had previously been leasing from the CAD shareholders. The purchase option price of the land and building was \$3,510,000. At the time the purchase option was being negotiated, the land and building had an appraised fair market value of \$5,200,000. It was also known that costs would be incurred to remediate environmental contaminants carried over from the property's prior use as a foundry. A third party evaluator has determined that this environmental liability approximates \$1,312,000. These future environmental remediation costs were factored into the purchase option price. Since it is likely that the CADRI will sustain these environmental remediation costs, an environmental liability reserve in the amount of \$1,312,000 has been recorded on the Company's balance sheet, with an offsetting increase to the carrying value of the land and building. As environmental remediation costs are incurred, they will be charged against the environmental liability reserve. The carrying value of the land and building value has been increased by \$107,625, representing the unamortized intangible asset value relating to the option to purchase as at the date of the acquisition, and by \$93,106 of transaction costs.

11. 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.

Under the credit agreement with its Lenders, the Company is obligated to comply with certain financial covenants and margin requirements. As of June 30, 2008, the Company is in compliance with all financial covenants and margin requirements. During the second quarter of 2008, a waiver was granted by the Lenders allowing the Company to exceed the capital expenditure cap set forth under the credit agreement.

The Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2007.

12. 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 June 30, 2008, the Company had issued 15,224,900 common shares (December 31, 2007 - 15,137,400) and had not issued any preferred shares.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2008
(Unaudited)

12. Share capital (continued):

(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:

	June 30, 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	72,500	4.12	655,000	4.46
Exercised	(87,500)	1.93	(205,656)	2.45
Cancelled or expired	-	-	(80,000)	3.46
Ending balance	1,459,344	\$ 3.60	1,474,344	\$ 3.48

At June 30, 2008, the stock options granted to officers, directors, employees and service providers to purchase common shares expire in the months noted as follows:

June 30, 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	30,000	3.70
November 2010	85,000	1.30	85,000	1.30
January 2011	174,902	2.00	174,902	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	-	-
June 2013	22,500	3.82	-	-
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	1,459,344	\$ 3.60	576,844	\$ 2.78

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)

Six months ended June 30, 2008
(Unaudited)

13. 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	\$	126,470
2009	\$	237,523
2010	\$	87,031
2011	\$	48,777
2012	\$	13,142

The Company is committed to payments under fixed price purchase contracts for the purchase of materials as follows:

Remainder of 2008	\$	2,733,531
2009	\$	1,760,010
2010	\$	2,484,373
2011	\$	3,682,270
2012	\$	323,964

These contracts contain clauses that allow the Company to renegotiate the purchase commitments in the event there is a material change to the underlying sales contract. Included in the above are purchase commitments totalling \$436,000 with a company owned by the interim President of CADRI.

14. Contingencies:

- The Company is a party to executive employment contracts, each requiring payment of a certain amount to an executive upon a change of control and the occurrence of an event that constitutes constructive dismissal of that executive within twelve months of the change of control. This would result in a total additional expense of up to approximately USD \$1,739,000 for all executive employment contracts.
- 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.
- 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 June 30, 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 June 30, 2008, no amount has been accrued in the interim consolidated financial statements.

15. Earnings per share:

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

	Three months		Six months	
	2008	2007	2008	2007
Weighted average number of common shares outstanding:				
Basic	15,180,119	14,931,744	15,162,330	14,931,744
Effect of stock options	211,071	266,686	248,504	220,284
Diluted	15,391,190	15,198,430	15,410,834	15,152,028

16. Related party transactions:

- During the first six months of 2008, CADRI paid approximately \$166,000 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).

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2008
(Unaudited)

16. Related party transactions (continued):

- (b) In the normal course of business, CADRI purchased approximately US \$717,000 of inventory from a company owned by the interim President of CADRI during the first six months of 2008 (2007 - \$ nil). These inventory purchases were made under terms and conditions comparable to those of CADRI's other inventory purchases.

17. 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, environmental liability, 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:

	June 30, 2008		December 31, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets held for trading:				
Cash and cash equivalents	\$ 478,730	\$ 478,730	\$ 894,458	\$ 894,458
Loans and receivables:				
Accounts receivable	\$ 9,605,151	\$ 9,605,151	\$ 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	\$ 6,611,788	\$ 6,611,788	\$ 6,291,453	\$ 6,291,453
Customer deposits	\$ 1,000,000	\$ 1,000,000	\$ 2,000,000	\$ 2,000,000
Environmental liability	\$ 1,312,000	\$ 1,312,000	\$ -	\$ -
Operating loan	\$ 900,000	\$ 900,000	\$ 100,000	\$ 100,000
Long-term debt	\$ 17,487,939	\$ 18,000,000	\$ 13,439,705	\$ 14,000,000

At June 30, 2008, transaction and financing costs in the amount of approximately \$512,000 (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 June 30, 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 June 30, 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)

Six months ended June 30, 2008
(Unaudited)

17. 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:

	June 30, 2008	December 31, 2007
Neither impaired nor past due	\$ 4,987,015	\$ 8,028,257
Impaired	198,233	290,212
Not impaired and past due in the following periods:		
Within 30 days	1,214,596	1,992,087
31 to 60 days	1,840,629	921,461
61 to 90 days	872,251	250,262
Over 90 days	415,753	150,452
Allowance for doubtful accounts	(198,303)	(290,212)
Trade receivables	9,330,174	11,342,519
Other receivables	274,977	178,843
Total accounts receivable	\$ 9,605,151	\$ 11,521,362

During the first six months of 2008, the Company charged \$190,351 to allowance for doubtful accounts (\$2,000 for the same period in 2007). Also during first six months of 2008, the Company increased allowance for doubtful accounts in the amount of \$98,442 with an offset to general and administration expense (\$ nil for the same period in 2007), and recorded interest income in the amount of \$10,091 on its impaired accounts receivables (\$ 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 June 30, 2008, a 100 basis point change in the Bank of Canada prime lending rate would result in a change in the Company's six month after tax earnings of approximately \$63,000.

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 June 30, 2008, a 1% strengthening of the United States dollar against the Canadian dollar would result in an increase in the Company's six month after tax earnings of approximately \$29,000, and an increase in other comprehensive income of \$142,000.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Six months ended June 30, 2008
(Unaudited)

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

(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 11. 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 June 30, 2008, the undrawn portion of the Company's bank credit facility was \$11,330,000 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 June 30, 2008:

	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 6,611,788	\$ -	\$ -	\$ -
Purchase commitments	2,733,531	4,244,383	4,006,234	-
Operating loan	900,000	-	-	-
Term loan	-	2,930,000	15,070,000	-
	\$ 10,245,319	\$ 7,174,383	\$ 19,076,234	\$ -

18. 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 geographic segment:

	United States	Canada	2008
Sales for the three months ended June 30	\$ 7,181,480	\$ 7,434,390	\$ 14,615,870
Sales for the six months ended June 30	\$ 15,447,370	\$ 14,687,606	\$ 30,134,977
Property, plant and equipment at June 30	\$ 4,125,950	\$ 18,487,076	\$ 22,613,026
Intangible assets at June 30	\$ -	\$ 741,250	\$ 741,250
Goodwill at June 30	\$ 8,194,136	\$ 3,796,799	\$ 11,990,935

	United States	Canada	2007
Sales for the three months ended June 30	\$ 7,524,237	\$ 1,691,731	\$ 9,215,968
Sales for the six months ended June 30	\$ 14,464,493	\$ 4,244,520	\$ 18,709,013
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

19. Comparative figures:

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