

Interim Consolidated Financial Statements of

GLOBAL RAILWAY INDUSTRIES LTD.

Three months ended March 31, 2009
(Unaudited)

GLOBAL RAILWAY INDUSTRIES LTD.

Interim Consolidated Balance Sheets

March 31, 2009, with comparative figures as at December 31, 2008

	2009	2008
	(unaudited)	(audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 743,809	\$ 495,722
Accounts receivable	10,098,267	12,728,970
Due from vendor (note 3)	-	1,536,000
Inventories (note 4)	18,336,704	14,681,363
Costs and estimated earnings on uncompleted contracts in excess of billings (note 5)	2,528,419	3,454,357
Prepaid expenses	980,815	632,592
Future income taxes (note 6)	145,293	126,250
	<u>32,833,307</u>	<u>33,655,254</u>
Property, plant and equipment (note 7)	24,286,839	24,168,518
Intangible assets (note 8)	646,750	678,250
Future income taxes (note 6)	3,435,640	2,323,829
Goodwill (note 9)	11,567,632	11,567,632
	<u>\$ 72,770,168</u>	<u>\$ 72,393,483</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan (note 10)	\$ 4,800,000	\$ 2,300,000
Long-term debt (note 10)	18,063,604	18,037,924
Accounts payable and accrued liabilities	9,505,294	10,541,571
Customer deposits (note 14b)	169,811	169,811
Income taxes payable	444,598	711,657
Future income taxes (note 6)	91,518	90,197
	<u>33,074,825</u>	<u>31,851,160</u>
Customer deposits (note 14b)	830,189	830,189
Environmental liability (note 11)	1,237,964	1,240,004
Future income taxes (note 6)	3,523,216	3,347,660
Shareholders' equity:		
Share capital (note 12)	26,366,433	26,366,433
Contributed surplus	2,421,458	2,281,127
Accumulated other comprehensive loss	(1,168,201)	(1,556,523)
Retained earnings	6,484,284	8,033,433
	<u>34,103,974</u>	<u>35,124,470</u>
Commitments (note 13)		
Contingencies (note 14)		
Subsequent event (note 22)		
	<u>\$ 72,770,168</u>	<u>\$ 72,393,483</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 (Loss)

Three months ended March 31, 2009, with comparative figures for 2008
(Unaudited)

	2009	2008
Sales	\$ 14,677,013	\$ 15,519,107
Cost of goods sold	12,592,167	11,219,833
Amortization of production property, plant and equipment (note 15)	375,680	26,409
	1,709,166	4,272,865
Operating expenses:		
Salaries	1,673,201	1,658,476
General and administration	1,517,377	1,191,367
	3,190,578	2,849,843
Earnings (loss) before undernoted items	(1,481,412)	1,423,022
Other expenses (income):		
Amortization of non-production property, plant and equipment and intangible assets (note 15)	89,833	83,762
Interest, net	90,889	(17,957)
Interest on long-term debt	173,874	199,954
Foreign exchange	106,205	38,741
	460,801	304,500
Earnings (loss) before income taxes	(1,942,213)	1,118,522
Income tax provision (recovery) (note 6):		
Current	622,185	524,212
Future	(1,015,249)	(47,288)
	(393,064)	476,924
Net earnings (loss)	(1,549,149)	641,598
Other comprehensive income (loss):		
Unrealized gain (loss) on translating financial statements of a self-sustaining foreign operation	388,322	409,014
Comprehensive income (loss)	\$ (1,160,827)	\$ 1,050,612
Net earnings (loss) per share (note 16):		
Basic	\$ (0.10)	\$ 0.04
Diluted	\$ (0.10)	\$ 0.04

See accompanying notes to the interim consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Interim Consolidated Statements of Shareholders' Equity

Three months ended March 31, 2009, with comparative figures for the year ended December 31, 2008
(Unaudited)

	Number of common shares issued	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings
Balance at December 31, 2007	15,137,400	\$ 26,073,957	\$ 1,528,403	\$ (3,573,497)	\$ 9,709,340
Stock-based compensation	-	-	846,200	-	-
Options exercised	102,500	292,476	(93,476)	-	-
Change in accumulated foreign currency translation adjustment	-	-	-	2,016,974	-
Net earnings	-	-	-	-	(1,675,907)
Balance at December 31, 2008	15,239,900	26,366,433	2,281,127	(1,556,523)	8,033,433
Stock-based compensation	-	-	140,331	-	-
Options exercised	-	-	-	-	-
Change in accumulated foreign currency translation adjustment	-	-	-	388,322	-
Net loss	-	-	-	-	(1,549,149)
Balance at March 31, 2009	15,239,900	\$ 26,366,433	\$ 2,421,458	\$ (1,168,201)	\$ 6,484,284

See accompanying notes to the interim consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Interim Consolidated Statements of Cash Flows

Three months ended March 31, 2009, with comparative figures for 2008
(Unaudited)

	2009	2008
Cash flows from (used in):		
Operating activities:		
Net earnings (loss)	\$ (1,549,149)	\$ 641,598
Items not involving cash:		
Future income tax provision (recovery)	(1,015,249)	(47,288)
Stock-based compensation expense	140,331	186,518
Amortization of plant and equipment (note 15)	375,649	272,538
Amortization of intangibles (note 15)	31,500	26,250
Variation of amortization included in inventories (note 15)	58,364	(188,617)
Interest expense	25,681	23,913
Unrealized foreign exchange loss (gain)	59,232	49,828
Changes in non-cash operating working capital:		
Accounts receivable	1,961,703	1,241,784
Due from vendor (note 3 and note 22)	1,536,000	-
Inventories	(3,044,705)	394,283
Costs and estimated earnings on uncompleted contracts in excess of billings	925,938	(584,613)
Prepaid expenses	(348,223)	(594,758)
Income taxes receivable	-	(212,684)
Accounts payable and accrued liabilities	(1,036,278)	470,708
Billings on uncompleted contracts in excess of costs and estimated earnings	-	(275,478)
Customer deposits	-	(1,000,000)
Income taxes payable	(267,059)	(286,375)
Unrealized foreign currency translation gain	219,485	284,522
	(1,926,780)	402,129
Investing activities:		
Acquisition (note 3)	-	(22,143)
Purchase of property, plant, and equipment	(325,133)	(1,230,409)
	(325,133)	(1,252,552)
Financing activities:		
Change in operating loan	2,500,000	600,000
Change in long-term debt	-	(500,000)
Issuance of share capital	-	21,500
	2,500,000	121,500
Increase (decrease) in cash and cash equivalents	248,087	(728,923)
Cash and cash equivalents, beginning of period	495,722	894,458
Cash and cash equivalents, end of period	\$ 743,809	\$ 165,535
Cash and cash equivalents comprised of:		
Cash	\$ 743,809	\$ 140,535
Term deposit	\$ -	\$ 25,000
Supplementary information:		
Interest paid	\$ 239,885	\$ 206,430
Income taxes paid	\$ 1,009,040	\$ 1,047,790

See accompanying notes to the interim consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements

Three months ended March 31, 2009
(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, 2008, 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, 2008.

The interim consolidated financial statements include the accounts of Global Railway Industries Ltd. and its wholly-owned subsidiaries, Bach-Simpson Corporation ("Bach-Simpson"), CAD Railway Industries Ltd. ("CADRI"), formerly Prime Steel Inc., and GBI USA Holdings, Inc., formerly YSD Holdings (2004), Inc., and its wholly-owned subsidiaries, G&B Specialties, Inc. ("G&B") and GBI Industries, Inc., formerly YSD Industries (2004), Inc. ("YSD"). All significant intercompany transactions and balances have been eliminated upon consolidation.

At March 31, 2009 the Company was not in compliance with a Funded Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") covenant and a Fixed Charge Coverage covenant under its Credit Agreement. The Company's Lenders have not issued any waivers for this non-compliance. The Company is likely not to be in compliance with these covenants during the remainder of 2009 and accordingly is in discussions with the Lenders to amend these covenants. The Company's ability to continue as a going concern will be dependent upon the ongoing support of its Lenders in providing the necessary financing arrangements and the generation of profitable operating results. While the Company is focusing its efforts on these matters, there are no assurances that these initiatives will be successful.

These interim consolidated financial statements do not give effect to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities at amounts different from those reflected in these interim consolidated financial statements; such adjustments could be material.

(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
Building improvements	10 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:

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2009
(Unaudited)

1. Significant accounting policies (continued):

- (d) Intangible assets (continued):

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.

- (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 Consolidated Statements of Comprehensive Income (Loss) 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 sheets 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 sheets.

- (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. The Company reviews all significant contracts at their inception and as each item in the arrangement is delivered to determine if the deliverable represents a separate unit of accounting. In the determination, the Company considers whether the delivered item has value to the customer on a stand-alone basis and that there is objective and reliable evidence of fair value of the undelivered items. Revenue is recognized at fair value on shipment or on the percentage of completion basis depending on the nature of the separate unit of accounting that is identified.

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 Interim Consolidated Balance Sheets.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2009
(Unaudited)

1. Significant accounting policies (continued):

(g) Revenue recognition (continued):

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.

(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, revenue under the percentage of completion method; and the calculation of stock-based compensation. These estimates and assumptions are based on Management's best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which Management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets and declines in customer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

(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 December 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 (Loss).

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2009
(Unaudited)

1. Significant accounting policies (continued):

(m) Asset retirement obligation:

The Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is amortized over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is amortized over the remaining life of the asset.

(n) Financial Instruments:

Financial instruments must be classified into one of these five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value depend on their initial classification, as follows: held for trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

The Company designated its cash and cash equivalents as held for trading. Long-term investments are designated as available-for-sale. Cash and cash equivalents and long-term investments are measured at fair value. Accounts receivable and due from vendor are classified as loans and receivables, which are measured at amortized cost. Operating loan, accounts payable and accrued liabilities, environmental liability, customer deposits, and long-term debt are classified as other financial liabilities, which are measured at amortized cost. Transaction and financing costs are included in the carrying amount of long-term debt, and are recognized using the effective interest rate method.

The Company has not utilized any financial instruments to manage foreign currency exposures, fluctuation in interest rates and exposures related to the purchase of raw materials, except subsequent to the period end, as disclosed in note 22.

2. Changes in accounting policies:

In the first quarter of 2009, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

- (a) *Section 1400, General Standards on Financial Statement Presentation*, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The adoption of this standard did not have any material impact on the Company's interim consolidated financial statements.
- (b) *Section 3064, Goodwill and Intangible Assets*, replacing *Section 3062, Goodwill and Other Intangible Assets*, and *Section 3450, Research and Development Costs*. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The adoption of this standard did not have any material impact on the Company's interim consolidated financial statements.
- (c) *EIC 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which clarifies that the credit risk of counterparties should be taken into account in determining the fair value of derivative instruments. EIC 173 is to be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after the date of issuance of EIC 173. The adoption of this standard did not have any material impact on the Company's interim consolidated financial statements.

The Company adopted Sections 1400, 3064, and EIC 173 on a prospective basis with no restatement to prior period interim consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2009
(Unaudited)

2. Changes in accounting policies (continued):

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

- (a) *Section 1582, Business Combinations*, provides guidance for the accounting of a business combination which is the Canadian equivalent to International Financial Reporting Standard IFRS 3. The Company will adopt this new standard in the first quarter of 2011 and is currently assessing the impact of adoption on its consolidated financial statements.
- (b) *Section 1601, Consolidated Financial Statements* and *Section 1602, Non-controlling Interests*, provide guidance for the preparation of consolidated financial statements and the accounting for non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company will adopt this new standard in the first quarter of 2011 and is currently assessing the impact of adoption on its consolidated financial statements.
- (c) In February 2008, the CICA's Accounting Standard Board announced that Canadian public companies will adopt International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board effective January 1, 2011. The Company has begun planning its transition to IFRS. During 2008, the Company carried out a diagnostic evaluation of all financial statement elements that would be impacted by the implementation of IFRS. The elements that will be impacted the most by the implementation of IFRS are income taxes, capital assets, business combinations and stock based compensation though the Company has not quantified that impact as at March 31, 2009. The impact of the implementation of IFRS on the Company's information systems, internal control over financial reporting, disclosure controls and procedures or business activities such as debt covenants, capital requirements or compensation arrangements have not been determined at this time. The Company plans to fully assess the impact of IFRS on the above noted items and implement such changes as may be required to ensure that IFRS reporting is fully embedded in the Company's operations by the end of 2010.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2009
(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 10.

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. The vendors were not in agreement with the amount of the net working capital shortfall. As part of its fair value assessment of the CAD acquisition, the Company adjusted the amount due from vendor to \$1,600,000, representing the amount estimated to be recovered through the arbitration process. The \$174,000 reduction was accounted for as an increase to goodwill. On March 23, 2009, the Company settled the dispute with the vendors over the net working capital shortfall. Under the settlement arrangement, the Company received \$1,500,000 plus interest of \$36,000. This settlement results in a reduction of the cash consideration paid to acquire CAD to \$20,500,000. A write-down in the amount of \$64,000, representing the difference between the settlement proceeds and the amount due to vendor, was recorded on the Company's December 31, 2008 Consolidated Statements of Comprehensive Income.

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.

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

	March 31, 2009	December 31, 2008
Cash and cash equivalents	\$ 720,825	\$ 720,825
Accounts receivable	2,606,101	2,606,101
Inventory	5,775,781	5,775,781
Prepaid expenses	278,271	278,271
Property, plant and equipment	11,940,475	11,940,475
Intangible assets	1,107,000	1,107,000
Future tax asset - long-term	178,500	178,500
Goodwill	2,604,219	2,604,219
Total assets	25,211,172	25,211,172
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)	(1,010,478)
Net assets acquired	21,443,022	21,443,022
Cash consideration paid	(20,400,000)	(22,000,000)
Transaction costs	(1,043,022)	(1,043,022)
Due from vendor	\$ -	\$ (1,600,000)

4. Inventories:

	March 31, 2009	December 31, 2008
Finished goods	\$ 13,524,651	\$ 10,673,845
Work in progress	2,134,116	1,720,646
Raw materials	2,677,937	2,286,872
	\$ 18,336,704	\$ 14,681,363

During the quarter ended March 31, 2009, the Company expensed \$8,225,999 of inventory (2008 - \$5,782,000) of inventory, including a net inventory provision of \$55,026 (2008 - \$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, 2009
(Unaudited)**5. Costs and estimated earnings on uncompleted contracts:**

	March 31, 2009	December 31, 2008
Costs and estimated earnings on uncompleted contracts	\$ 10,938,819	\$ 8,074,133
Less billings to date	(8,410,400)	(4,619,776)
	<u>\$ 2,528,419</u>	<u>\$ 3,454,357</u>
Costs and estimated earnings on uncompleted contracts in excess of billings	\$ 2,528,419	\$ 3,454,357
Billings on uncompleted contracts in excess of costs and estimated earnings	-	-
	<u>\$ 2,528,419</u>	<u>\$ 3,454,357</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, 2009	March 31, 2008
Earnings (loss) before income taxes	\$ (1,942,213)	\$ 1,118,522
Expected income tax rate	31.5%	31.5%
Computed expected income tax expense (recovery)	(611,797)	352,334
Difference resulting from:		
Non-deductible items	25,999	40,492
U.S. state taxes	35,275	85,085
Other	157,459	(987)
Provision for income taxes	<u>\$ (393,064)</u>	<u>\$ 476,924</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, 2009	December 31, 2008
Future tax assets:		
Financing costs	\$ 25,445	\$ 25,683
Plant and equipment and intangible assets principally due to differences in depreciation and amortization	44,766	46,254
Net operating loss carryforwards	2,735,040	1,646,511
Environmental liability related to land and building	334,250	334,801
Scientific research and experimental development claims	282,707	264,745
Other	158,725	132,085
	<u>3,580,933</u>	<u>2,450,079</u>
Future tax liabilities:		
Management contract payments	(1,336,192)	(1,290,321)
Plant and equipment and intangible assets principally due to differences in depreciation and amortization	(2,149,007)	(2,020,173)
Scientific research and experimental development claims	(91,518)	(90,197)
Other	(38,017)	(37,166)
	<u>(3,614,734)</u>	<u>(3,437,857)</u>
Net future income tax liability	<u>\$ (33,801)</u>	<u>\$ (987,778)</u>

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2009
(Unaudited)**6. Income taxes (continued):**

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

	March 31, 2009	December 31, 2008
Current assets	\$ 145,293	\$ 126,250
Long-term assets	3,435,640	2,323,829
Current liabilities	(91,518)	(90,197)
Long-term liabilities	(3,523,216)	(3,347,660)
	\$ (33,801)	\$ (987,778)

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the temporary differences 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 \$8,934,000 which can be carried forward to reduce future Canadian taxable income. The losses will expire in 2010 to 2029.

7. Property, plant and equipment:

March 31, 2009	Cost	Accumulated amortization	Net book value
Land	\$ 4,697,247	\$ -	\$ 4,697,247
Buildings	8,962,837	469,394	8,493,442
Machinery and equipment	12,960,622	3,016,647	9,943,975
Building improvements	494,125	55,232	438,893
Computers	1,096,852	711,737	385,114
Vehicles	111,490	101,033	10,457
Furniture	378,315	187,858	190,458
Leasehold improvements	104,488	104,488	-
Construction in progress	127,252	-	127,252
	\$ 28,933,228	\$ 4,646,390	\$ 24,286,839

December 31, 2008	Cost	Accumulated amortization	Net book value
Land	\$ 4,691,959	\$ -	\$ 4,691,959
Buildings	8,856,195	401,685	8,454,510
Machinery and equipment	12,630,109	2,720,631	9,909,478
Building improvements	491,133	42,904	448,229
Computers	1,027,610	657,575	370,035
Vehicles	110,666	99,264	11,402
Furniture	362,034	177,546	184,488
Leasehold improvements	104,488	104,488	-
Construction in progress	98,417	-	98,417
	\$ 28,372,611	\$ 4,204,093	\$ 24,168,518

8. Intangible assets:

March 31, 2009	Cost	Accumulated amortization	Net book value
Customer relationships	\$ 380,000	\$ 52,250	\$ 327,750
Trade names and trademarks	230,000	63,250	166,750
Non-compete agreements	210,000	57,750	152,250
Option to purchase land and building	179,375	179,375	-
	\$ 999,375	\$ 352,625	\$ 646,750

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2009
(Unaudited)

8. Intangible assets (continued):

December 31, 2008	Cost	Accumulated amortization	Net book value
Customer relationships	\$ 380,000	\$ 42,750	\$ 337,250
Trade names and trademarks	230,000	51,750	178,250
Non-compete agreements	210,000	47,250	162,750
Option to purchase land and building	179,375	179,375	-
	\$ 999,375	\$ 321,125	\$ 678,250

9. Goodwill:

CICA Handbook section 3062 requires goodwill to be tested for impairment on an annual basis or more frequently if events or circumstances indicate that the carrying amount may not be recoverable. At December 31, 2008, the Company completed its annual impairment test whereby the Company estimated the fair value of each reporting segment and compared it to the segment's book value. The fair values of the Track & Signal and Instrumentation segments were greater than their respective carrying values, indicating goodwill was not impaired for these two segments. The estimated fair value for the Locomotive segment was lower than its carrying value, indicating a potential impairment, which required the Company to perform an additional analysis.

Based on this analysis it was determined that as at December 31, 2008 the recorded value of goodwill exceeded the fair value and a non-cash write-down of \$2,769,802 (2009 - \$nil) was required for goodwill recorded in 2002 related to the Locomotive segment. The primary contributing factor to the impairment of goodwill was lower operating results in the Locomotive segment driven by the decrease in demand for railcar metal fabrication services.

10. 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.

On December 16, 2008, the borrowing rates and a certain compliance covenant within the Company's Credit Agreement were amended.

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. The term facility is committed for five years. The operating facility is subject to annual review and renewal by the Lenders.

The demand revolving operating facility bears interest at a floating rate between 0.50% and 0.75% (2008 - between 0.50% and 0.75%) over the Canadian bank prime lending rate, or between 1.5% and 2.0% (2008 - between 1.5% and 2.0%) 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 0.5% and 1.0% (2008 - between 0.5% and 1.0%) over the Canadian bank prime lending rate, or between 1.75% and 2.25% (2008 - between 1.75% and 2.25%) 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, 2009, transaction and financing costs in the amount of approximately \$436,000 (December 31, 2008 - \$462,000) are included in the carrying amount of the amount outstanding under the term facility, and are recognized using the effective interest rate method.

The Company has issued an irrevocable standby letter of credit in the amount of \$1,000,000 as security against a customer's contractual prepayments. Additionally, the Company has issued an irrevocable standby letter of credit in the amount of \$37,500 in support of a contract tender. These standby letter of credits constitute borrowings under the Company's operating facility.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2009
(Unaudited)

10. Credit facilities (continued):

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

As at March 31, 2009, the Company was not in compliance with the Funded Debt to EBITDA covenant and the Fixed Charge Coverage covenant included in the Credit Agreement. As at March 31, 2009, the Company had a Funded Debt to EBITDA ratio of 7.55 while the Credit Agreement required a ratio of no greater than 3.50. As at March 31, 2009, the Company had a Fixed Charge Coverage ratio of 0.07 while the Credit Agreement required a ratio of no less than 1.25. The Lenders have not agreed to waive the covenant breaches at March 31, 2009. The Lenders have not altered the terms and conditions of the credit facility. Based on its 2009 projections, the Company expects further breaches of these covenants during 2009 that may result in the termination of the term facility by the Lenders. Company management is in discussions with the Lenders to amend the Funded Debt to EBITDA covenant and the Fixed Charge Coverage covenant as part of the regular annual review of the facility; however these discussions, and any resulting amendments to the covenants, will not likely be completed until the second quarter of 2009. Since there is a risk that the term facility may be terminated within one year, the Company has classified \$15,840,000 of long-term debt not scheduled to be repaid in 2009 as a current liability on the Consolidated Balance Sheets. There is no assurance the Lenders will grant these amendments or provide waivers for future covenant violations should they occur. If future covenant violations were to occur, the Lenders could restrict access to funds under the Credit Agreement or terminate the Agreement. There is no assurance that the Company would be able to obtain funding from alternative sources.

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

	March 31, 2009	December 31, 2008
Operating facility	\$ 4,800,000	\$ 2,300,000
Term facility - current portion	\$ 18,500,000	\$ 18,500,000
Term facility - long-term portion	\$ -	\$ -
Hedge facility	\$ -	\$ -
Credit card facility	\$ -	\$ -

11. 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 Consolidated Balance Sheets, 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. In 2009, the Company has charged \$2,040 against the environmental reserve (year ended December 31, 2008 - 71,966). 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.

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 March 31, 2009, the Company had issued 15,239,900 common shares (December 31, 2008 - 15,239,900) and had not issued any preferred shares.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2009
(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:

	March 31, 2009		December 31, 2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	1,511,844	\$ 3.30	1,474,344	\$ 3.48
Granted	-	-	225,000	1.81
Exercised	-	-	(102,500)	1.94
Cancelled or expired	(60,000)	4.40	(85,000)	4.09
Ending balance	1,451,844	\$ 3.26	1,511,844	\$ 3.30

At March 31, 2009 the stock options granted to officers, directors, employees and service providers to purchase common shares expire in the months noted as follows:

March 31, 2009	Number of options	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
June 2010	30,000	3.70	30,000	3.70
November 2010	85,000	1.30	85,000	1.30
January 2011	159,902	2.00	159,902	2.00
August 2011	1,942	3.10	1,942	3.10
November 2012	50,000	4.35	25,000	4.35
December 2012	175,000	4.59	98,332	4.59
March 2013	50,000	4.25	-	-
June 2013	22,500	3.82	-	-
December 2013	152,500	0.72	-	-
August 2014	140,000	4.90	40,000	4.90
November 2014	210,000	4.35	70,000	4.35
November 2015	100,000	2.84	100,000	2.84
December 2016	225,000	3.12	225,000	3.12
April 2017	50,000	3.30	25,000	3.30
Total	1,451,844	\$ 3.26	860,176	\$ 3.20

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

December 31, 2008	Number of options	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
January 2009	60,000	\$ 4.40	60,000	\$ 4.40
June 2010	30,000	3.70	30,000	3.70
November 2010	85,000	1.30	85,000	1.30
January 2011	159,902	2.00	159,902	2.00
August 2011	1,942	3.10	1,942	3.10
November 2012	50,000	4.35	25,000	4.35
December 2012	175,000	4.59	98,332	4.59
March 2013	50,000	4.25	-	-
June 2013	22,500	3.82	-	-
December 2013	152,500	0.72	-	-
August 2014	140,000	4.90	40,000	4.90
November 2014	210,000	4.35	70,000	4.35
November 2015	100,000	2.84	100,000	2.84
December 2016	225,000	3.12	225,000	3.12
April 2017	50,000	3.30	25,000	3.30
Total	1,511,844	\$ 3.30	920,176	\$ 3.20

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2009
(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:

2009	\$	194,557
2010	\$	109,047
2011	\$	72,027
2012	\$	26,714
2013	\$	10,086

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

2009	\$	8,429,785
2010	\$	9,294,413
2011	\$	11,718,907
2012	\$	3,446,409

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 totaling \$11,980,000 with a company owned by the interim President of CADRI.

14. Contingencies:

- (a) 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 \$1,756,000 for all executive employment contracts.
- (b) The Company has issued a guarantee in the form of an irrevocable standby letter of credit, in the amount of \$1,000,000 as security against a customer's contractual prepayments. Upon written demand, the customer is able to draw partially, or in full, upon this guarantee. The guarantee expires on December 10, 2009, but is automatically renewable for an additional period of one year.
- (c) The Company has issued a guarantee in the form of an irrevocable standby letter of credit, in the amount of \$37,500 as security against a contract tender. Upon written demand, the customer is able to draw partially, or in full, upon this guarantee. The guarantee expires on November 1, 2009.
- (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, 2009, the Company's potential liability under indemnification commitments is \$9,000,000 (December 31, 2008 - \$9,000,000). Historically, the Company has not made any payments under such indemnifications and accordingly, as of March 31, 2009, no amount has been accrued in the interim consolidated financial statements.

15. Amortization:

	March 31, 2009	March 31, 2008
Amortization of property, plant and equipment and intangible assets	\$ 407,149	\$ 298,788
Adjustment for the variation of amortization of property, plant and equipment included in inventories	58,364	(188,617)
Amortization included in the interim consolidated statements of comprehensive income (loss)	\$ 465,513	\$ 110,171
Consists of:		
Amortization of production property, plant and equipment	\$ 375,680	\$ 26,409
Amortization of non-production property, plant and equipment and intangible assets	89,833	83,762
Amortization included in the interim consolidated statements of comprehensive income (loss)	\$ 465,513	\$ 110,171

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2009
(Unaudited)

16. Earnings per share:

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

	March 31, 2009	March 31, 2008
Weighted average number of common shares outstanding:		
Basic	15,239,900	15,144,543
Effect of stock options	-	284,895
Diluted	15,239,900	15,429,438

17. Related party transactions:

- (a) During the quarter ended March 31, 2009, CADRI paid approximately \$83,000 for management services provided by a company owned by the interim President of CADRI (2008 - \$94,000).
- (b) In the normal course of business, CADRI purchased approximately US \$396,000 of inventory from a company owned by the interim President of CADRI during the quarter ended March 31, 2009 (2008 - US \$30,000). These inventory purchases were made under terms and conditions comparable to those of CADRI's other inventory purchases, and are recorded at the exchange amount being the amounts agreed to by the two parties.

18. 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 at March 31, 2009, the Company was not in compliance with the Funded Debt to EBITDA covenant and the Fixed Charged Coverage covenant included in the Credit Agreement. The Company is likely not to be in compliance with these covenants during the remainder of 2009 and accordingly is in discussions with the Lenders to amend these covenants. The Company's ability to continue as a going concern will be dependent upon the ongoing support of its Lenders in providing the necessary financing arrangements and the generation of profitable operating results. While the Company is focusing its efforts on these matters, there are no assurances that these initiatives will be successful.

The Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2008.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2009
(Unaudited)

19. 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, current portion of long-term debt, 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:

	March 31, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets held for trading:				
Cash and cash equivalents	\$ 743,809	\$ 743,809	\$ 495,722	\$ 495,722
Loans and receivables:				
Accounts receivable	\$ 10,098,267	\$ 10,098,267	\$ 12,728,970	\$ 12,728,970
Due from vendor	\$ -	\$ -	\$ 1,536,000	\$ 1,536,000
Other financial liabilities:				
Accounts payable and accrued liabilities	\$ 9,505,294	\$ 9,505,294	\$ 10,541,571	\$ 10,541,571
Customer deposits	\$ -	\$ -	\$ 1,000,000	\$ 1,000,000
Environmental liability	\$ 1,237,964	\$ 1,237,964	\$ 1,240,004	\$ 1,240,004
Operating loan	\$ 4,800,000	\$ 4,800,000	\$ 2,300,000	\$ 2,300,000
Long-term debt	\$ 18,063,604	\$ 18,500,000	\$ 18,037,924	\$ 18,500,000

At March 31, 2009, transaction and financing costs in the amount of approximately \$436,000 (December 31, 2008 - \$462,000) 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, 2009, 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, 2009 or during the year ended December 31, 2008.

(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, 2009
(Unaudited)

19. 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, 2009	December 31, 2008
Neither impaired nor past due	\$ 6,031,261	\$ 6,636,949
Impaired	204,047	306,692
Not impaired and past due in the following periods:		
Within 30 days	1,451,512	2,225,008
31 to 60 days	884,027	897,818
61 to 90 days	359,403	464,287
Over 90 days	196,544	1,529,881
Allowance for doubtful accounts	(204,047)	(306,692)
Trade receivables	8,922,747	11,753,943
Other receivables	1,175,520	975,027
Total accounts receivable	\$ 10,098,267	\$ 12,728,970

During the period ended March 31, 2009, the Company charged \$209,679 to allowance for doubtful accounts (December 31, 2008 - \$205,378). Also during the period ended March 31, 2009, the Company increased allowance for doubtful accounts in the amount of \$107,034 with an offset to general and administration expense (December 31, 2008 - \$221,858), and recorded interest income in the amount of \$nil on its impaired accounts receivables (December 31, 2008 - \$nil).

(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, 2009, a 100 basis point change in the Bank of Canada prime lending rate would result in a change in the Company's quarterly net earnings (loss) of approximately \$39,000 (2008 - \$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, 2009, a 1% strengthening of the United States dollar against the Canadian dollar would result in an increase in the Company's quarterly net earnings (loss) of approximately \$60,000 (2008 - \$12,000), and an increase in quarterly other comprehensive income of \$113,000 (2008 - \$143,000).

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2009
(Unaudited)

19. 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 18. 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, 2009, the undrawn portion of the Company's bank credit facility was \$4,582,500 (December 31, 2008 - \$7,890,000) 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.

At March 31, 2009, the Company was not in compliance with a Funded Debt to EBITDA covenant and a Fixed Charge covenant under its Credit Agreement. The Company's Lenders have not issued any waivers for this non-compliance. The Company is likely not to be in compliance with these covenants during the remainder of 2009 and accordingly is in discussions with the Lenders to amend these covenants. The Company's ability to continue as a going concern will be dependent upon the ongoing support of its Lenders in providing the necessary financing arrangements and the generation of profitable operating results. While the Company is focusing its efforts on these matters, there are no assurances that these initiatives will be successful.

The following are the contractual maturities, excluding interest payments, reflecting undiscounted future cash disbursements of the Company's financial liabilities at March 31, 2009:

	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 9,505,294	\$ -	\$ -	\$ -
Purchase commitments	8,429,785	9,294,413	15,165,316	-
Operating loan	4,800,000	-	-	-
Term loan	18,500,000	-	-	-
	<u>\$ 41,235,079</u>	<u>\$ 9,294,413</u>	<u>\$ 15,165,316</u>	<u>\$ -</u>

20. Segmented information:

The Company's operations are conducted through three reportable business segments: track and signal which is primarily the manufacture of track signal layouts and railgear, instrumentation which is primarily the manufacture of event recorders; and locomotive which is primarily the remanufacture and repair of locomotives and railcars. Management evaluates each business segment's performance based upon revenues less direct cost of sales, salaries and general and administrative expenses.

Revenues and segment profit:

Quarter ended March 31, 2009	Track and signal	Instrumentation	Locomotive	Corporate	Consolidated
Revenues	\$ 5,663,755	\$ 2,266,606	\$ 6,833,561	\$ (86,909)	\$ 14,677,013
Direct cost of sales, salaries and general and administrative expenses	4,203,680	1,358,340	9,617,212	979,193	16,158,425
	<u>1,460,075</u>	<u>908,266</u>	<u>(2,783,651)</u>	<u>(1,066,102)</u>	<u>(1,481,412)</u>
Depreciation and amortization	13,562	7,852	47,973	20,446	89,833
Interest expense	(408)	134	27,217	237,820	264,763
Other expense (income), net	(8,968)	(23,945)	31,806	107,312	106,205
Earnings (loss) before income taxes	<u>\$ 1,455,889</u>	<u>\$ 924,225</u>	<u>\$ (2,890,647)</u>	<u>\$ (1,431,680)</u>	<u>\$ (1,942,213)</u>

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2009
(Unaudited)

20. Segmented information (continued):

Revenues and segment profit (continued):

Quarter ended March 31, 2008	Track and signal	Instrumentation	Locomotive	Corporate	Consolidated
Revenues	\$ 5,171,240	\$ 1,518,149	\$ 8,842,469	\$ (12,751)	\$ 15,519,107
Direct cost of sales, salaries and general and administrative expenses	3,733,729	1,137,258	8,263,036	962,062	14,096,085
	1,437,511	380,891	579,433	(974,813)	1,423,022
Depreciation and amortization	12,245	6,547	48,522	16,448	83,762
Interest expense	(643)	(3,377)	7,532	178,485	181,997
Other expense (income), net	13,737	(31,446)	(36,539)	92,989	38,741
Earnings (loss) before income taxes	\$ 1,412,172	\$ 409,167	\$ 559,918	\$ (1,262,735)	\$ 1,118,522

Other segment reporting:

2009	Track and signal	Instrumentation	Locomotive	Corporate	Consolidated
Assets at March 31	\$ 22,723,272	\$ 4,283,195	\$ 43,189,973	\$ 2,573,728	\$ 72,770,168
Goodwill at March 31	\$ 8,194,136	\$ 785,893	\$ 2,587,603	\$ -	\$ 11,567,632
Capital expenditures for the three month period ended March 31	\$ 31,503	\$ 5,215	\$ 288,415	\$ -	\$ 325,133

2008	Track and signal	Instrumentation	Locomotive	Corporate	Consolidated
Assets at December 31	\$ 21,027,626	\$ 3,327,538	\$ 44,944,127	\$ 3,094,192	\$ 72,393,483
Goodwill at December 31	\$ 8,194,136	\$ 785,893	\$ 2,587,603	\$ -	\$ 11,567,632
Capital expenditures for the three month period ended March 31	\$ 598,135	\$ 30,776	\$ 601,498	\$ -	\$ 1,230,409

The following is a summary of the Company's sales, property, plant and equipment, intangible assets, and goodwill, by geographic segment:

2009	International	United States	Canada	2009
Sales for the three month period ended March 31	\$ 377,975	\$ 8,715,551	\$ 5,583,487	\$ 14,677,013
Property, plant and equipment at March 31	\$ -	\$ 4,859,516	\$ 19,427,323	\$ 24,286,839
Intangible assets at March 31	\$ -	\$ -	\$ 646,750	\$ 646,750
Goodwill at March 31	\$ -	\$ 8,194,136	\$ 3,373,496	\$ 11,567,632

2008	International	United States	Canada	2008
Sales for the three month period ended March 31	\$ 342,189	\$ 7,941,285	\$ 7,235,633	\$ 15,519,107
Property, plant and equipment at December 31	\$ -	\$ 4,800,257	\$ 19,368,261	\$ 24,168,518
Intangible assets at December 31	\$ -	\$ -	\$ 678,250	\$ 678,250
Goodwill at December 31	\$ -	\$ 8,194,136	\$ 3,337,496	\$ 11,567,632

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Three months ended March 31, 2009
(Unaudited)

21. Comparative figures:

Certain of the 2008 comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

22. Subsequent event:

On April 21, 2009, the Company entered into two fixed-for-floating interest rate swap agreements with one of its Lenders to partially manage exposure to interest rate fluctuations on its revolving, reducing term facility. The first fixed-for-floating interest rate swap agreement is for a notional amount of \$5.0 million, with the Company paying a fixed interest rate of 1.05%, and receiving a floating interest rate based on the 90 day Canadian Deposit Offering Rate ("CDOR"), maturing on October 29, 2010. The second fixed-for-floating interest rate swap agreement is for a notional amount of \$5.0 million, with the Company paying a fixed interest rate of 1.30%, and receiving a floating interest rate based on the 90 day CDOR rate, maturing on October 31, 2011.