

Interim Consolidated Financial Statements of

**GLOBAL RAILWAY INDUSTRIES LTD.**

Nine months ended September 30, 2009  
(Unaudited)

# GLOBAL RAILWAY INDUSTRIES LTD.

Interim Consolidated Balance Sheets

September 30, 2009, with comparative figures as at December 31, 2008

	2009	2008
	(unaudited)	(audited)
<b>Assets</b>		
Current assets:		
Cash	\$ 1,509,086	\$ 495,722
Accounts receivable	11,300,730	12,728,970
Due from vendor (note 3)	-	1,536,000
Inventories (note 4)	15,995,819	14,681,363
Costs and estimated earnings on uncompleted contracts in excess of billings (note 5)	3,490,470	3,454,357
Prepaid expenses	1,108,676	632,592
Future income taxes (note 6)	220,802	126,250
	<u>33,625,583</u>	<u>33,655,254</u>
Property, plant and equipment (note 7)	23,067,199	24,168,518
Intangible assets (note 8)	583,750	678,250
Future income taxes (note 6)	4,934,907	2,323,829
Goodwill (note 9)	11,567,632	11,567,632
	<u>\$ 73,779,071</u>	<u>\$ 72,393,483</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Operating loan (note 10)	\$ 7,720,000	\$ 2,300,000
Long-term debt (note 10)	16,996,384	18,037,924
Accounts payable and accrued liabilities	8,511,990	10,541,571
Customer deposits (note 15(b))	1,929,811	169,811
Income taxes payable	1,641,363	711,657
Future income taxes (note 6)	107,508	90,197
	<u>36,907,056</u>	<u>31,851,160</u>
Derivative instruments (note 11(a))	16,589	-
Customer deposits (note 15(b))	1,070,189	830,189
Environmental liability (note 12)	1,237,964	1,240,004
Future income taxes (note 6)	3,473,859	3,347,660
Shareholders' equity:		
Share capital (note 13)	26,366,433	26,366,433
Contributed surplus	2,650,128	2,281,127
Accumulated other comprehensive loss	(3,021,349)	(1,556,523)
Retained earnings	5,078,202	8,033,433
	<u>31,073,414</u>	<u>35,124,470</u>
Commitments (note 14)		
Contingencies (note 15)		
Subsequent event (note 22)		
	<u>\$ 73,779,071</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" Laurie Bennett  
Chairman of the Audit Committee

## GLOBAL RAILWAY INDUSTRIES LTD.

Interim Consolidated Statements of Comprehensive Income (Loss)

Three months and nine months ended September 30, 2009, with comparative figures for 2008  
(Unaudited)

	Three months		Nine months	
	2009	2008	2009	2008
Sales	\$ 16,945,656	\$ 15,068,561	\$ 49,008,921	\$ 45,203,538
Cost of goods sold	13,450,668	10,482,851	40,748,192	32,468,874
Amortization of production property, plant and equipment (note 16)	385,692	31,013	1,054,871	208,520
	3,109,296	4,554,697	7,205,858	12,526,144
Operating expenses:				
Salaries	1,835,865	1,368,936	4,954,826	4,565,504
General and administration	1,346,815	1,624,547	4,442,441	4,233,015
	3,182,680	2,993,483	9,397,267	8,798,519
Earnings (loss) before undernoted items	(73,384)	1,561,214	(2,191,409)	3,727,625
Other expenses (income):				
Amortization of non-production property, plant and equipment and intangible assets (note 16)	89,552	97,936	270,811	436,135
Interest, net	185,307	41,929	375,130	54,199
Interest on long-term debt	189,221	220,865	494,239	596,165
Change in fair value of derivative instruments	(7,067)	-	16,589	-
Foreign exchange loss	157,026	19,077	282,887	114,901
	614,039	379,807	1,439,656	1,201,400
Earnings (loss) before income taxes	(687,423)	1,181,407	(3,631,065)	2,526,225
Income tax provision (recovery) (note 6):				
Current	435,883	364,144	1,683,124	1,403,234
Future	(591,778)	275,394	(2,358,958)	(160,264)
	(155,895)	639,538	(675,834)	1,242,970
Net earnings (loss)	(531,528)	541,869	(2,955,231)	1,283,255
Other comprehensive income (loss):				
Unrealized gain (loss) on translating financial statements of a self-sustaining foreign operation	(923,586)	546,779	(1,464,826)	907,374
Comprehensive income (loss)	\$ (1,455,114)	\$ 1,088,648	\$ (4,420,057)	\$ 2,190,629
Net earnings (loss) per share (note 17):				
Basic	\$ (0.03)	\$ 0.04	\$ (0.19)	\$ 0.08
Diluted	\$ (0.03)	\$ 0.04	\$ (0.19)	\$ 0.08

See accompanying notes to the interim consolidated financial statements.

**GLOBAL RAILWAY INDUSTRIES LTD.**

## Interim Consolidated Statements of Shareholders' Equity

Nine months ended September 30, 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	-	-	369,001	-	-
Change in accumulated foreign currency translation adjustment	-	-	-	(1,464,826)	-
Net loss	-	-	-	-	(2,955,231)
Balance at September 30, 2009	15,239,900	\$ 26,366,433	\$ 2,650,128	\$ (3,021,349)	\$ 5,078,202

See accompanying notes to the interim consolidated financial statements.

# GLOBAL RAILWAY INDUSTRIES LTD.

## Interim Consolidated Statements of Cash Flows

Three months and nine months ended September 30, 2009, with comparative figures for 2008  
(Unaudited)

	Three months		Nine months	
	2009	2008	2009	2008
Cash flows from (used in):				
Operating activities:				
Net earnings (loss)	\$ (531,528)	\$ 541,869	\$ (2,955,231)	\$ 1,283,255
Items not involving cash:				
Future income tax recovery	(591,778)	275,394	(2,358,958)	(160,264)
Stock-based compensation expense	104,139	266,513	369,001	649,351
Amortization of plant and equipment (note 16)	382,567	339,819	1,155,236	897,954
Amortization of intangibles (note 16)	31,500	31,500	94,500	276,500
Variation of amortization included in inventories (note 16)	61,177	(242,370)	75,946	(529,799)
Interest expense	26,629	24,765	78,461	72,999
Change in fair value of derivative instruments	(7,067)	-	16,589	-
Loss on sale of property, plant, and equipment	-	-	-	5,654
Unrealized foreign exchange loss (gain)	(127,369)	44,094	(205,193)	113,705
Changes in non-cash operating working capital:				
Accounts receivable	(540,699)	(694,459)	759,240	1,221,752
Inventories	2,252,962	546,733	(721,402)	974,364
Costs and estimated earnings on uncompleted contracts in excess of billings	(1,006,521)	(1,423,755)	(36,113)	(2,637,066)
Prepaid expenses	(160,947)	(242,287)	(476,084)	(974,810)
Income taxes receivable	-	15,976	-	-
Accounts payable and accrued liabilities	(407,077)	1,175,441	(2,029,591)	1,495,776
Billings on uncompleted contracts in excess of costs and estimated earnings	-	(297,363)	-	(1,000,000)
Customer deposits	1,760,000	-	1,760,000	(1,000,000)
Income taxes payable	590,988	306,214	929,706	19,839
Unrealized foreign currency translation gain (loss)	(572,341)	351,645	(905,502)	616,505
	1,264,635	1,019,729	(4,449,395)	1,325,715
Investing activities:				
Acquisition (note 3)	-	-	-	(107,762)
Due from vendor (note 3)	-	-	1,536,000	-
Purchase of property, plant, and equipment	(149,678)	(859,593)	(613,241)	(6,442,945)
Proceeds from disposal of property, plant and equipment	-	-	-	400
	(149,678)	(859,593)	922,759	(6,550,307)
Financing activities:				
Change in operating loan	770,000	(100,000)	5,420,000	700,000
Change in long-term debt	(770,000)	-	(1,120,000)	4,000,000
Customer deposits	240,000	-	240,000	-
Issuance of share capital	-	30,000	-	199,000
	240,000	(70,000)	4,540,000	4,899,000
Increase (decrease) in cash	1,354,957	90,136	1,013,364	(325,592)
Cash, beginning of period	154,129	478,730	495,722	894,458
Cash, end of period	\$ 1,509,086	\$ 568,866	\$ 1,509,086	\$ 568,866
Supplementary information:				
Interest paid	\$ 283,713	\$ 245,136	\$ 715,459	\$ 652,888
Income taxes paid (refunded)	\$ (203,328)	\$ 88,191	\$ 744,499	\$ 1,465,021

See accompanying notes to the interim consolidated financial statements.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements

Nine months ended September 30, 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 on a "going concern" basis 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. The "going concern" basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. 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 its wholly-owned subsidiary, CAD Railway Properties 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.

At September 30, 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 will not be in compliance with these covenants during the remainder of 2009 and in 2010 and accordingly is in discussions with the Lenders to amend these covenants. As a result of the foregoing matters, there is significant doubt about the entity's ability to continue as a going concern. The Company's ability to continue as a going concern is 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 ("FIFO") at Bach-Simpson and G&B. Inventories of components and purchased parts are valued at the lower of cost and net realizable value, on a weighted average cost basis at CADRI (see note 2(a)). 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

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Nine months ended September 30, 2009  
(Unaudited)

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

(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	term of agreement
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.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Nine months ended September 30, 2009  
(Unaudited)

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

(g) Revenue recognition (continued):

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.

The Company charges any anticipated losses on contracts 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.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Nine months ended September 30, 2009  
(Unaudited)

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

(l) Foreign currency translation:

As of September 30, 2009, 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).

(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. Derivative contracts are measured at fair value. 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 and exposures related to the purchase of raw materials.

(o) Derivative financial instruments:

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial or commodity indices. On April 21, 2009, the Company entered into two interest rate swap contracts used to manage the exposure to market risks from changing interest rates. These instruments have not been designated as a hedge and are marked to market. The resulting unrealized gains and losses during the period are recorded in other expenses (income) with a corresponding asset or liability recorded on the Interim Consolidated Balance Sheets. Payments and receipts under the interest rate swap contracts are recognized as adjustments to interest expense on long-term debt.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Nine months ended September 30, 2009  
(Unaudited)

### 2. Changes in accounting policies:

- (a) On July 1, 2009 CADRI voluntarily adopted the weighted average cost method for valuing its inventory. Previously CADRI had used the FIFO method. This change in accounting policy followed an upgrade to CADRI's inventory system that resulted in a more reliable and more relevant inventory valuation being available to Management. Due to previous inventory system weaknesses, it is not practicable to calculate the financial impact of this change in accounting policy at the end of the third quarter of 2009.
- (b) In the first quarter of 2009, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):
  - (i) 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.
  - (ii) 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.
  - (iii) 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.

- (c) Other new accounting standards issued by the Canadian Institute of Chartered Accountants were as follows:
  - (i) 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 as part of its transition to International Financial Reporting Standards ("IFRS").
  - (ii) 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 as part of its transition to IFRS.
  - (iii) In February 2008, the CICA's Accounting Standard Board announced that Canadian public companies will adopt 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 September 30, 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.
  - (iv) In June 2009, the CICA amended Section 3862, *Financial Instruments - Disclosures*, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009. The Company is assessing the impact of these amendments on its consolidated financial statements.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Nine months ended September 30, 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:

	September 30, 2009	December 31, 2008
Cash and cash equivalents	\$ 720,825	\$ 720,825
Accounts receivable	2,606,101	2,606,101
Inventories	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
<b>Total assets</b>	<b>25,211,172</b>	<b>25,211,172</b>
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)
<b>Net assets acquired</b>	<b>21,443,022</b>	<b>21,443,022</b>
Cash consideration paid	(20,400,000)	(22,000,000)
Transaction costs	(1,043,022)	(1,043,022)
<b>Due from vendor</b>	<b>\$ -</b>	<b>\$ (1,600,000)</b>

### 4. Inventories:

	September 30, 2009	December 31, 2008
Finished goods	\$ 11,276,505	\$ 10,673,845
Work in progress	1,941,516	1,720,646
Raw materials	2,777,798	2,286,872
	<b>\$ 15,995,819</b>	<b>\$ 14,681,363</b>

During the first nine months ended September 30, 2009, the Company expensed \$25,307,000 of inventory (September 30, 2008 - \$16,874,000) of inventory, including a net inventory provision of \$124,380 (September 30, 2008 - \$64,047) 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)

Nine months ended September 30, 2009  
(Unaudited)

### 5. Costs and estimated earnings on uncompleted contracts:

	September 30, 2009	December 31, 2008
Costs and estimated earnings on uncompleted contracts	\$ 19,600,967	\$ 8,074,133
Less billings to date	(16,110,497)	(4,619,776)
	<u>\$ 3,490,470</u>	<u>\$ 3,454,357</u>
Costs and estimated earnings on uncompleted contracts in excess of billings	\$ 3,490,470	\$ 3,454,357
	<u>\$ 3,490,470</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 (loss) before income taxes. The reasons for the differences are as follows:

	Three months		Nine months	
	2009	2008	2009	2008
Earnings (loss) before income taxes	\$ (687,423)	\$ 1,181,407	\$ (3,631,065)	\$ 2,526,225
Expected income tax rate	31.0%	31.5%	31.0%	31.5%
Computed expected income tax expense (recovery)	(213,101)	372,143	(1,125,630)	795,761
Difference resulting from:				
Non-deductible items	(14,479)	75,805	6,576	123,554
U.S. state taxes	17,964	32,844	77,716	156,531
Other	53,721	158,746	365,504	167,124
Provision for income taxes	<u>\$ (155,895)</u>	<u>\$ 639,538</u>	<u>\$ (675,834)</u>	<u>\$ 1,242,970</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:

	September 30, 2009	December 31, 2008
Future tax assets:		
Financing costs	\$ 19,646	\$ 25,683
Plant and equipment and intangible assets principally due to differences in depreciation and amortization	39,980	46,254
Net operating loss carryforwards	4,189,230	1,646,511
Environmental liability related to land and building	333,012	334,801
Scientific research and experimental development claims	372,533	264,745
Other	238,788	132,085
	<u>5,193,189</u>	<u>2,450,079</u>
Valuation allowance	(37,480)	-
	<u>5,155,709</u>	<u>2,450,079</u>
Future tax liabilities:		
Management contract payments	(1,134,275)	(1,290,321)
Plant and equipment and intangible assets principally due to differences in depreciation and amortization	(2,298,689)	(2,020,173)
Scientific research and experimental development claims	(107,507)	(90,197)
Other	(40,896)	(37,166)
	<u>(3,581,367)</u>	<u>(3,437,857)</u>
Net future income tax liability	<u>\$ 1,574,342</u>	<u>\$ (987,778)</u>

**GLOBAL RAILWAY INDUSTRIES LTD.**

Notes to Interim Consolidated Financial Statements (continued)

Nine months ended September 30, 2009  
(Unaudited)**6. Income taxes (continued):**

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

	September 30, 2009	December 31, 2008
Current assets	\$ 220,802	\$ 126,250
Long-term assets	4,934,907	2,323,829
Current liabilities	(107,508)	(90,197)
Long-term liabilities	(3,473,859)	(3,347,660)
	<u>\$ 1,574,342</u>	<u>\$ (987,778)</u>

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 \$15,303,000 which can be carried forward to reduce future Canadian taxable income. The losses will expire in 2010 to 2029. The Company also has net capital losses of approximately \$182,000 which can be carried forward indefinitely to reduce future taxable capital gains. Due to uncertainty of realization, a valuation allowance of approximately \$37,000 (December 31, 2008 - nil) has been recorded against the future tax benefit of the capital losses.

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

September 30, 2009	Cost	Accumulated amortization	Net book value
Land	\$ 4,673,967	\$ -	\$ 4,673,967
Buildings	8,493,413	533,564	7,959,849
Machinery and equipment	12,718,144	3,332,768	9,385,376
Building improvements	494,125	79,938	414,187
Computers	1,044,044	748,428	295,616
Vehicles	107,860	99,720	8,140
Furniture	362,935	203,941	158,994
Leasehold improvements	121,838	104,633	17,205
Construction in progress	153,865	-	153,865
	<u>\$ 28,170,191</u>	<u>\$ 5,102,992</u>	<u>\$ 23,067,199</u>

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
	<u>\$ 28,372,611</u>	<u>\$ 4,204,093</u>	<u>\$ 24,168,518</u>

**8. Intangible assets:**

September 30, 2009	Cost	Accumulated amortization	Net book value
Customer relationships	\$ 380,000	\$ 71,250	\$ 308,750
Trade names and trademarks	230,000	86,250	143,750
Non-compete agreements	210,000	78,750	131,250
	<u>\$ 820,000</u>	<u>\$ 236,250</u>	<u>\$ 583,750</u>

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Nine months ended September 30, 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
	<u>\$ 820,000</u>	<u>\$ 141,750</u>	<u>\$ 678,250</u>

### 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.

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

On July 28, 2009, the borrowing rates within the Company's Credit Agreement were amended.

On November 12, 2009, Management and the Lenders agreed to terms for amending the Company's credit facility (see note 22).

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 of 2.25% (2008 - between 0.50% and 0.75%) over the Canadian bank prime lending rate, or 3.5% (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 of 2.75% (2008 - between 0.5% and 1.0%) over the Canadian bank prime lending rate, or 4.0% (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.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Nine months ended September 30, 2009  
(Unaudited)

### 10. Credit facilities (continued):

At September 30, 2009, transaction and financing costs in the amount of approximately \$384,000 (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.

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.

On March 30, 2009, the Lenders agreed to waive a covenant breach at December 31, 2008 and forbear from exercising its rights with respect to this breach under the Credit Agreement.

As at September 30, 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 September 30, 2009, the Company had a Funded Debt to EBITDA ratio of (79.21) while the Credit Agreement required a ratio of no greater than 3.50. As at September 30, 2009, the Company had a Fixed Charge Coverage ratio of (1.12) while the Credit Agreement required a ratio of no less than 1.25. The Lenders have not agreed to waive the covenant breaches at September 30, 2009. The Lenders have not altered the terms and conditions of the credit facility. Based on its 2009 projections, the Company expects continued breaches of these covenants during 2009 and 2010. As a result of the previous breaches of these covenants, the Lenders are and will be, with respect to the anticipated breaches, in a position to take enforcement action against the Company that could result in the curtailment or termination of all or a portion of the credit facilities, demand for payment and/or realization on security. Company Management is in discussions with the Lenders to amend the credit facility agreement and increase its access to capital; however these discussions, and any resulting amendments to the credit facility agreement, will not be completed until the fourth quarter of 2009. There is no assurance the Lenders will grant these amendments or provide waivers for future covenant violations should they occur, nor is there any assurance that the Company would be able to obtain funding from alternative sources. Since there is a risk that the term facility may be terminated within one year, the Company has classified \$14,300,000 of long-term debt not scheduled to be repaid within one year as a current liability on the Interim Consolidated Balance Sheets.

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

	September 30, 2009	December 31, 2008
Operating facility	\$ 7,720,000	\$ 2,300,000
Term facility - current portion	\$ 17,380,000	\$ 18,500,000
Term facility - long-term portion	\$ -	\$ -
Credit card facility	\$ -	\$ -

### 11. 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, derivative instruments, 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, carrying values and fair values of the Company's financial instruments are as follows:

	September 30, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets held for trading:				
Cash	\$ 1,509,086	\$ 1,509,086	\$ 495,722	\$ 495,722
Loans and receivables:				
Accounts receivable	\$ 11,300,730	\$ 11,300,730	\$ 12,728,970	\$ 12,728,970
Due from vendor	\$ -	\$ -	\$ 1,536,000	\$ 1,536,000
Financial liabilities held for trading:				
Interest rate swap contracts	\$ 16,589	\$ 16,589	\$ -	\$ -
Other financial liabilities:				
Accounts payable and accrued liabilities	\$ 8,511,990	\$ 8,511,990	\$ 10,541,571	\$ 10,541,571
Customer deposits	\$ 3,000,000	\$ 3,000,000	\$ 1,000,000	\$ 1,000,000
Environmental liability	\$ 1,237,964	\$ 1,237,964	\$ 1,240,004	\$ 1,240,004
Operating loan	\$ 7,720,000	\$ 7,720,000	\$ 2,300,000	\$ 2,300,000
Long-term debt	\$ 16,996,384	\$ 17,380,000	\$ 18,037,924	\$ 18,500,000

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Nine months ended September 30, 2009  
(Unaudited)

### 11. Financial instruments and financial risk management (continued):

(a) Financial instruments (continued):

At September 30, 2009, transaction and financing costs in the amount of approximately \$384,000 (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 September 30, 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 interest rate swap contracts 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 September 30, 2009 or during the year ended December 31, 2008.

During the second quarter of 2009, the Company entered into interest rate swap contracts to fix the variable portion (Canadian Dealer Offered Rate ("CDOR") excluding the applicable margin) on a portion of the borrowings under the revolving, reducing long-term credit facility. As at September 30, 2009, the interest rate swap contracts were reported at fair value as a liability on the Interim Consolidated Balance Sheets. Changes in the fair value of these contracts are included in earnings. The Company elected not to apply hedge accounting for these derivatives. The following table summarizes the outstanding interest rate swap contracts reflecting the applicable variable interest rates in effect as at September 30, 2009:

Notional principal amount	Maturity	Receive CDOR interest rate	Pay fixed interest rate	Fair value asset (liability)
\$5,000,000	October 2010	0.43%	1.05%	\$ (23,922)
\$5,000,000	October 2011	0.43%	1.30%	7,333
				<u>\$ (16,589)</u>

(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.

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:

	September 30, 2009	December 31, 2008
Neither impaired nor past due	\$ 7,767,625	\$ 6,636,949
Impaired	127,345	306,692
Not impaired and past due in the following periods:		
Within 30 days	1,704,167	2,225,008
31 to 60 days	491,000	897,818
61 to 90 days	97,954	464,287
Over 90 days	4,495	1,529,881
<u>Allowance for doubtful accounts</u>	<u>(127,345)</u>	<u>(306,692)</u>
Trade receivables	10,065,241	11,753,943
Other receivables	1,235,489	975,027
<u>Total accounts receivable</u>	<u>\$ 11,300,730</u>	<u>\$ 12,728,970</u>

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Nine months ended September 30, 2009  
(Unaudited)

### 11. Financial instruments and financial risk management (continued):

(b) Financial risk management (continued):

(i) Credit risk (continued):

During the first nine months of 2009, the Company charged \$322,095 to allowance for doubtful accounts (December 31, 2008 - \$205,378). Also during the first nine months of 2009, the Company increased allowance for doubtful accounts in the amount of \$142,748 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 receivable (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, operating loan, and long-term debt not hedged by interest rate swaps. Changes in variable interest rates could cause unanticipated fluctuations in the Company's operating results. As at September 30, 2009, a 100 basis point change in the Bank of Canada prime lending rate would result in a change in the Company's nine month net earnings (loss) of approximately \$76,000 (September 30, 2008 - \$97,000).

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 September 30, 2009, a 1% strengthening of the United States dollar against the Canadian dollar would result in an increase in the Company's nine month net earnings (loss) of approximately \$110,000 (September 30, 2008 - \$61,000), and an increase in the nine month other comprehensive income of \$94,000 (September 30, 2008 - \$148,000).

(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 19. 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 September 30, 2009, the undrawn portion of the Company's bank credit facility was \$1,230,465 (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 September 30, 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 will not 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 September 30, 2009:

	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 8,511,990	\$ -	\$ -	\$ -
Purchase commitments	5,631,212	10,281,390	16,577,304	-
Operating loan	7,720,000	-	-	-
Term loan	17,380,000	-	-	-
	\$ 39,243,202	\$ 10,281,390	\$ 16,577,304	\$ -

### 12. 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 Interim 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 the first nine months of 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.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Nine months ended September 30, 2009  
(Unaudited)

### 13. 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 September 30, 2009, the Company had issued 15,239,900 common shares (December 31, 2008 - 15,239,900) and had not issued any preferred shares.

(b) Stock options:

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

	September 30, 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	(339,902)	3.12	(85,000)	4.09
<b>Ending balance</b>	<b>1,171,942</b>	<b>\$ 3.35</b>	<b>1,511,844</b>	<b>\$ 3.30</b>

At September 30, 2009, the stock options granted to officers, directors, employees and service providers to purchase common shares expire in the months noted as follows:

September 30, 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	100,000	2.00	100,000	2.00
August 2011	1,942	3.10	1,942	3.10
November 2012	50,000	4.35	25,000	4.35
December 2012	115,000	4.59	38,332	4.59
March 2013	50,000	4.25	16,666	4.25
June 2013	7,500	3.82	7,500	3.82
December 2013	107,500	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	125,000	3.12	125,000	3.12
April 2017	50,000	3.30	50,000	3.30
<b>Total</b>	<b>1,171,942</b>	<b>\$ 3.35</b>	<b>689,440</b>	<b>\$ 3.12</b>

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
<b>Total</b>	<b>1,511,844</b>	<b>\$ 3.30</b>	<b>920,176</b>	<b>\$ 3.20</b>

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Nine months ended September 30, 2009  
(Unaudited)

### 14. Commitments:

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

2009	\$	69,924
2010	\$	249,696
2011	\$	218,266
2012	\$	181,824
2013	\$	171,192
2014	\$	167,706

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

2009	\$	5,631,212
2010	\$	10,281,390
2011	\$	12,551,319
2012	\$	4,025,985

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 \$9,473,000 with a company owned by the President of CADRI.

### 15. 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 \$1,572,000 for all executive employment contracts.
- 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.
- The Company has issued guarantees in the form of irrevocable standby letters of credit, in amounts totalling \$49,535, as security against contract tenders. Upon written demand, the customers are able to draw partially, or in full, upon these guarantees. The guarantees expire between November 1, 2009 and January 14, 2010.
- 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 September 30, 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 September 30, 2009, no amount has been accrued in the Interim Consolidated Financial Statements.

### 16. Amortization:

	Three months		Nine months	
	2009	2008	2009	2008
Amortization of property, plant and equipment and intangible assets	\$ 414,067	\$ 371,319	\$ 1,249,736	\$ 1,174,454
Adjustment for the variation of amortization of property, plant and equipment included in inventories	61,177	(242,370)	75,946	(529,799)
Amortization included in the interim consolidated statements of comprehensive income (loss)	\$ 475,244	\$ 128,949	\$ 1,325,682	\$ 644,655
Consists of:				
Amortization of production property, plant and equipment	\$ 385,692	\$ 31,013	\$ 1,054,871	\$ 208,520
Amortization of non-production property, plant and equipment and intangible assets	89,552	97,936	270,811	436,135
Amortization included in the interim consolidated statements of comprehensive income (loss)	\$ 475,244	\$ 128,949	\$ 1,325,682	\$ 644,655

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Nine months ended September 30, 2009  
(Unaudited)

### 17. Earnings per share:

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

	Three months		Nine months	
	2009	2008	2009	2008
Weighted average number of common shares outstanding:				
Basic	15,239,900	15,237,291	15,239,900	15,187,502
Effect of stock options	-	110,795	-	199,476
Diluted	15,239,900	15,348,086	15,239,900	15,386,978

### 18. Related party transactions:

- (a) During the first nine months of 2009, CADRI paid approximately \$266,000 for management services provided by a company owned by the President of CADRI (September 30, 2008 - \$226,000).
- (b) In the normal course of business, CADRI purchased approximately US \$1,550,000 of inventory from a company owned by the President of CADRI during the first nine months of 2009 (September 30, 2008 - US \$1,140,000). 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.

### 19. Capital risk management:

The Company's objectives in managing capital are to ensure sufficient liquidity to support its business requirements throughout 2010 as the economy begins to recover. 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 September 30, 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 will not 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 has changed from the year ended December 31, 2008, when the Company was pursuing growth through strategic acquisitions combined with organic growth.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Nine months ended September 30, 2009  
(Unaudited)

### 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:

Three months ended September 30, 2009	Track and Signal	Instrumentation	Locomotive	Corporate	Consolidated
Sales	\$ 4,915,847	\$ 2,576,461	\$ 9,453,348	\$ -	\$ 16,945,656
Direct cost of sales, salaries and general and administrative expenses	3,653,044	1,710,870	10,379,598	1,275,528	17,019,040
	1,262,803	865,591	(926,250)	(1,275,528)	(73,384)
Depreciation and amortization	11,891	8,136	50,125	19,400	89,552
Interest expense	(323)	486	48,781	325,584	374,528
Other expense (income), net	110,120	127,580	165,100	(252,841)	149,959
Earnings (loss) before income taxes	\$ 1,141,115	\$ 729,389	\$ (1,190,256)	\$ (1,367,671)	\$ (687,423)

Three months ended September 30, 2008	Track and Signal	Instrumentation	Locomotive	Corporate	Consolidated
Sales	\$ 5,117,851	\$ 1,540,095	\$ 8,410,615	\$ -	\$ 15,068,561
Direct cost of sales, salaries and general and administrative expenses	4,041,012	1,245,014	7,107,199	1,114,122	13,507,347
	1,076,839	295,081	1,303,416	(1,114,122)	1,561,214
Depreciation and amortization	15,291	7,878	57,702	17,065	97,936
Interest expense	(789)	213	15,761	247,609	262,794
Other expense (income), net	(30,456)	(47,491)	(76,258)	173,282	19,077
Earnings (loss) before income taxes	\$ 1,092,793	\$ 334,481	\$ 1,306,211	\$ (1,552,078)	\$ 1,181,407

Nine months ended September 30, 2009	Track and Signal	Instrumentation	Locomotive	Corporate	Consolidated
Sales	\$ 16,450,377	\$ 7,346,890	\$ 25,211,654	\$ -	\$ 49,008,921
Direct cost of sales, salaries and general and administrative expenses	12,028,688	4,940,811	30,814,042	3,416,789	51,200,330
	4,421,689	2,406,079	(5,602,388)	(3,416,789)	(2,191,409)
Depreciation and amortization	38,552	23,980	149,273	59,006	270,811
Interest expense	(1,147)	880	83,120	786,516	869,369
Other expense (income), net	183,078	217,834	175,247	(276,683)	299,476
Earnings (loss) before income taxes	\$ 4,201,206	\$ 2,163,385	\$ (6,010,028)	\$ (3,985,628)	\$ (3,631,065)

Nine months ended September 30, 2008	Track and Signal	Instrumentation	Locomotive	Corporate	Consolidated
Sales	\$ 16,475,434	\$ 4,627,244	\$ 24,113,611	\$ (12,751)	\$ 45,203,538
Direct cost of sales, salaries and general and administrative expenses	12,184,813	3,685,452	22,468,269	3,137,379	41,475,913
	4,290,621	941,792	1,645,342	(3,150,130)	3,727,625
Depreciation and amortization	42,164	21,013	322,903	50,055	436,135
Interest expense	(2,040)	(2,905)	15,988	639,321	650,364
Other expense (income), net	(27,251)	(54,451)	(93,365)	289,968	114,901
Earnings (loss) before income taxes	\$ 4,277,748	\$ 978,135	\$ 1,399,816	\$ (4,129,474)	\$ 2,526,225

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements (continued)

Nine months ended September 30, 2009  
(Unaudited)

### 20. Segmented information (continued):

Other segment reporting:

2009	Track and Signal	Instrumentation	Locomotive	Corporate	Consolidated
Assets at September 30	\$ 20,266,415	\$ 4,193,288	\$ 45,780,170	\$ 3,539,198	\$ 73,779,071
Goodwill at September 30	\$ 8,194,136	\$ 785,893	\$ 2,587,603	\$ -	\$ 11,567,632
Capital expenditures for the three month period ended September 30	\$ 9,636	\$ 17,349	\$ 122,693	\$ -	\$ 149,678
Capital expenditures for the nine month period ended September 30	\$ 164,779	\$ 23,083	\$ 425,379	\$ -	\$ 613,241

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 September 30	\$ 121,908	\$ 8,094	\$ 729,591	\$ -	\$ 859,593
Capital expenditures for the nine month period ended September 30	\$ 799,900	\$ 46,792	\$ 5,596,253	\$ -	\$ 6,442,945

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 September 30	\$ 1,391,014	\$ 8,678,618	\$ 6,876,024	\$ 16,945,656
Sales for the nine month period ended September 30	\$ 2,232,498	\$ 29,367,922	\$ 17,408,501	\$ 49,008,921
Property, plant and equipment at September 30	\$ -	\$ 3,999,119	\$ 19,068,080	\$ 23,067,199
Intangible assets at September 30	\$ -	\$ -	\$ 583,750	\$ 583,750
Goodwill at September 30	\$ -	\$ 8,194,136	\$ 3,373,496	\$ 11,567,632

2008	International	United States	Canada	2008
Sales for the three month period ended September 30	\$ 1,275,916	\$ 6,781,537	\$ 7,011,108	\$ 15,068,561
Sales for the nine month period ended September 30	\$ 2,063,366	\$ 21,574,573	\$ 21,565,599	\$ 45,203,538
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	\$ 3,373,496	\$ 11,567,632

## **GLOBAL RAILWAY INDUSTRIES LTD.**

Notes to Interim Consolidated Financial Statements (continued)

Nine months ended September 30, 2009  
(Unaudited)

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### **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 November 12, 2009, Management and the Lenders agreed to terms for amending the Company's credit facility.

The Term Facility will change from a revolving, reducing facility to a reducing facility. The repayments of long-term debt scheduled for October 1, 2009 and January 1, 2010 totaling \$1,540,000 have been postponed until the expiry date of the term credit facility in 2012.

The Company's Operating Facility has been renewed to the next annual review scheduled for March 31, 2010 and will remain at \$10,000,000. However, the borrowing base related to the Company's inventory has been expanded from \$5,000,000 to \$6,500,000, subject to obtaining a waiver from Bach-Simpson's landlord.

The Company's Hedge Facility will be capped at the current exposure level.

The borrowing rates for both facilities were not changed from the rates established by the Lenders on July 28, 2009 (see note 10).

A new EBITDA covenant has been introduced, requiring the Company to meet minimum quarterly EBITDA targets, with a 15% tolerance, through to the end of 2010. The Lenders have also agreed to provide the Company with tolerance for missing its Funded Debt to EBITDA and Fixed Charge Coverage covenants through to the end of the first quarter of 2010.

The amendments to the Company's credit facility require the Company to enter into a binding agreement for the sale of one or more subsidiaries before January 31, 2010, with a transaction close date of no later than February 28, 2010; or alternatively obtain a commitment by January 31, 2010 for a new facility of not less than \$5,000,000, for a combination of equity and subordinated debt, which is to include a minimum equity injection of \$2,500,000, to be completed by March 31, 2010.

Under the amended terms of the Credit Facility, the Company will be required to provide the Lenders with specified monthly financial information, provide regular updates on the divestiture process, and implement monthly financial monitoring by an independent accounting firm.