

Consolidated Financial Statements of

GLOBAL RAILWAY INDUSTRIES LTD.

Years ended December 31, 2009 and 2008



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Global Railway Industries Ltd. as at December 31, 2009 and 2008 and the consolidated statements of comprehensive income (loss), shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants, Licensed Public Accountants

London, Canada

March 26, 2010 except as to Note 23 (b), which is as of March 31, 2010

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Balance Sheets

December 31, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash	\$ 2,005,824	\$ 495,722
Accounts receivable	8,497,527	12,728,970
Due from vendor (note 4)	-	1,536,000
Inventories (note 5)	14,477,398	14,681,363
Costs and estimated earnings on uncompleted contracts in excess of billings (note 6)	5,917,775	3,454,357
Prepaid expenses	1,014,439	632,592
Future income taxes (note 7)	475,535	126,250
	<u>32,388,498</u>	<u>33,655,254</u>
Property, plant and equipment (note 8)	22,776,870	24,168,518
Intangible assets (note 9)	552,250	678,250
Future income taxes (note 7)	5,497,076	2,323,829
Goodwill (note 10)	8,980,029	11,567,632
	<u>\$ 70,194,723</u>	<u>\$ 72,393,483</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Operating loan (note 11)	\$ 6,720,000	\$ 2,300,000
Long-term debt (note 11)	17,201,750	18,037,924
Accounts payable and accrued liabilities	9,287,389	10,541,571
Customer deposits (note 16(b))	2,497,360	169,811
Income taxes payable	1,870,353	711,657
Future income taxes (note 7)	140,983	90,197
	<u>37,717,835</u>	<u>31,851,160</u>
Customer deposits (note 16(b))	1,246,036	830,189
Environmental liability (note 13)	1,237,964	1,240,004
Future income taxes (note 7)	2,957,957	3,347,660
Shareholders' equity:		
Share capital (note 14)	26,366,433	26,366,433
Contributed surplus	2,688,847	2,281,127
Accumulated other comprehensive loss	(3,218,489)	(1,556,523)
Retained earnings	1,198,140	8,033,433
	<u>27,034,931</u>	<u>35,124,470</u>
Commitments (note 15)		
Contingencies (note 16)		
Subsequent events (note 23)		
	<u>\$ 70,194,723</u>	<u>\$ 72,393,483</u>

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"signed by" Terry McManaman
Chairman of the Board

"signed by" Laurie Bennett
Chairman of the Audit Committee

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2009 and 2008

	2009	2008
Sales	\$ 66,498,542	\$ 61,767,266
Cost of goods sold	55,696,179	45,237,691
Amortization of production property, plant and equipment (note 17)	1,460,680	638,668
	9,341,683	15,890,907
Operating expenses:		
Salaries	6,991,613	6,434,608
General and administration	5,968,973	5,872,781
	12,960,586	12,307,389
Earnings (loss) before undernoted items	(3,618,903)	3,583,518
Other expenses (income):		
Amortization of non-production property, plant and and equipment and intangible assets (note 17)	356,884	499,152
Interest, net	655,689	161,155
Interest on long-term debt	740,477	821,152
Change in fair value of derivative instruments	12,636	-
Foreign exchange loss (gain)	363,225	(352,182)
	2,128,911	1,129,277
Earnings (loss) before goodwill impairment	(5,747,814)	2,454,241
Goodwill impairment (note 10)	2,587,603	2,769,802
Loss before income taxes	(8,335,417)	(315,561)
Income tax provision (recovery) (note 7):		
Current	2,144,687	2,012,545
Future	(3,644,811)	(652,199)
	(1,500,124)	1,360,346
Net loss	(6,835,293)	(1,675,907)
Other comprehensive income (loss):		
Unrealized gain (loss) on translating financial statements of a self-sustaining foreign operation	(1,661,966)	2,016,974
Comprehensive income (loss)	\$ (8,497,259)	\$ 341,067
Net loss per share (note 18):		
Basic	\$ (0.45)	\$ (0.11)
Diluted	\$ (0.45)	\$ (0.11)

See accompanying notes to the consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Statements of Shareholders' Equity

Years ended December 31, 2009 and 2008

	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 loss	-	-	-	-	(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	-	-	407,720	-	-
Change in accumulated foreign currency translation adjustment	-	-	-	(1,661,966)	-
Net loss	-	-	-	-	(6,835,293)
Balance at December 31, 2009	15,239,900	\$ 26,366,433	\$ 2,688,847	\$ (3,218,489)	\$ 1,198,140

See accompanying notes to the consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008

	2009	2008
Cash flows from (used in):		
Operating activities:		
Net loss	\$ (6,835,293)	\$ (1,675,907)
Items not involving cash:		
Future income tax recovery	(3,644,811)	(652,199)
Goodwill impairment	2,587,603	2,769,802
Stock-based compensation expense	407,720	846,200
Amortization of plant and equipment (note 17)	1,523,554	1,254,019
Amortization of intangibles (note 17)	126,000	308,000
Variation of amortization included in inventories (note 17)	168,010	(424,199)
Interest expense	283,827	98,218
Loss on sale of property, plant, and equipment	-	5,654
Unrealized foreign exchange loss (gain)	(218,676)	265,869
Changes in non-cash operating working capital:		
Accounts receivable	3,562,443	(1,207,608)
Inventories	704,955	(1,659,557)
Costs and estimated earnings on uncompleted contracts in excess of billings	(2,463,418)	(3,454,357)
Prepaid expenses	(381,847)	(460,445)
Accounts payable and accrued liabilities	(1,254,183)	4,250,119
Billings on uncompleted contracts in excess of costs and estimated earnings	-	(1,000,000)
Customer deposits	2,327,549	(830,189)
Income taxes payable	1,158,696	425,282
Unrealized foreign currency translation gain (loss)	(1,028,383)	1,121,814
	(2,976,254)	(19,484)
Investing activities:		
Acquisition (note 4)	-	(107,762)
Due from vendor	1,536,000	64,000
Purchase of property, plant, and equipment	(765,491)	(7,065,079)
Proceeds from disposal of property, plant and equipment	-	400
	770,509	(7,108,441)
Financing activities:		
Change in operating loan	4,420,000	2,200,000
Change in long-term debt	(1,120,000)	4,500,000
Customer deposits	415,847	(169,811)
Issuance of share capital	-	199,000
	3,715,847	6,729,189
Increase (decrease) in cash	1,510,102	(398,736)
Cash, beginning of year	495,722	894,458
Cash, end of year	\$ 2,005,824	\$ 495,722
Supplementary information:		
Interest paid	\$ 1,058,571	\$ 1,059,526
Income taxes paid	\$ 877,308	\$ 2,082,908

See accompanying notes to the consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008

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. Basis of presentation:

The Company's Consolidated Financial Statements have been prepared on a "going concern" basis in accordance with Canadian generally accepted accounting principles. 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.

There is significant doubt about the Company's ability to continue as a going concern and be able to realize its assets and discharge its liabilities and commitments in the normal course of business because at December 31, 2009, the Company was not in compliance with a Funded Debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") covenant, a Fixed Charges Coverage covenant, and an EBITDA covenant under its Credit Agreement with two Canadian banks ("the Lenders"). The Company's Lenders have not issued any waivers for this non-compliance; however in the Second Amending Agreement to the Credit Agreement dated December 12, 2009, the Company's Lenders agreed to tolerate the Funded Debt to Earnings Before EBITDA and Fixed Charges Coverage defaults. The Company has advised its Lenders that it will not be in compliance with these covenants in 2010 and accordingly will continue discussions with its Lenders to amend these covenants. 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.

Basis of consolidation:

These 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 Consolidated Financial Statements; such adjustments could be material. The Consolidated Financial Statements include the accounts of Global Railway Industries Ltd. and its wholly-owned subsidiaries, Bach-Simpson Corporation ("Bach-Simpson"), CAD Railway Industries Ltd. ("CADRI"), formerly Prime Steel Inc., and 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.

2. Significant accounting policies:

(a) 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. CADRI's inventories of components and purchased parts are valued at the lower of cost, on a weighted average cost basis, and net realizable value (see note 3(a)). Finished goods and work in process are valued at the lower of cost, including materials, labour and overhead, and net realizable value.

(b) 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 Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

2. Significant accounting policies (continued):

(c) 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.

(d) 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 Consolidated Statements of Comprehensive Income (Loss).

(e) 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. Quoted market values are used whenever available to estimate fair value. When quoted market values are unavailable, the fair value of the long-lived asset is generally based on estimates of discounted expected net cash flows. 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 Consolidated Balance Sheets.

(f) 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 Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

2. Significant accounting policies (continued):

(f) 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 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.

(g) 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.

(h) 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.

(i) Earnings (loss) per share:

Basic earnings (loss) per common share are calculated using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share are calculated using the treasury stock method for determining the dilutive effect of options. Diluted earnings (loss) per common share are computed similar to basic earnings (loss) per common share except that the weighted average shares outstanding are increased to include additional common shares from the assumed exercise of stock options, if dilutive. The number of additional common 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. When a loss is incurred, basic and diluted earnings per common share are the same because exercises of options are anti-dilutive.

(j) 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 and directors 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 Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

2. Significant accounting policies (continued):

(k) Foreign currency translation:

As of December 31, 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 dates and revenues and expenses are translated into Canadian dollars at average exchange rates for the period. The cumulative unrealized translation gain or loss is included in accumulated other comprehensive income or loss in the Consolidated Statements of Shareholders' Equity.

Transactions of the Company and its subsidiaries originating in foreign currencies are translated at the rates in effect at the time of the transaction. Monetary items denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet dates 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 expenses (income) on the Consolidated Statements of Comprehensive Income (Loss).

(l) 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 sheets 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 (loss); available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income (loss) until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings (loss).

The Company designated its cash and cash equivalents as held for trading. Cash and cash equivalents 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.

(m) 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 as a result unrealized gains and losses are recorded in other expenses (income) with a corresponding asset or liability recorded on the Consolidated Balance Sheets as part of accounts payable and accrued liabilities. Payments and receipts under the interest rate swap contracts are recognized as adjustments to interest expense on long-term debt.

The Company has not utilized any financial instruments to manage foreign currency exposures and exposures related to the purchase of raw materials.

(n) Government assistance and investment tax credits:

Research and development costs are reduced by related government assistance. Investment tax credits are accounted for using the cost reduction method, whereby the benefit is recognized as a reduction in the cost of the related asset or in direct cost when there is reasonable assurance the tax credits will be received and if it is more likely than not that they will be utilized to reduce taxes payable.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

3. 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. The financial impact of this change in accounting policy for the year ended December 31, 2009 as well as its impact on prior periods is not material.
- (b) In 2009, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"):
 - (i) 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 consolidated financial statements.
 - (ii) 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 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 consolidated financial statements.
 - (iii) Section 3862, *Financial Instruments - Disclosures*, was amended 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. The new disclosures are included in note 12 to the Company's 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 an IFRS comparable to this new standard in the first quarter of 2011 as part of its transition to 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 an IFRS comparable to this new standard in the first quarter of 2011 as part of its transition to IFRS.
 - (iii) In December 2009, the CICA issued EIC 175, *Multiple Deliverable Revenue Arrangements*, replacing EIC 142, *Revenue Arrangements with Multiple Deliverables*. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption. The Company will adopt an IFRS comparable to this new standard in the first quarter of 2011 as part of its transition to IFRS.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

3. Changes in accounting policies (continued):

- (iv) In February 2008, the CICA announced that Canadian public companies will be required to prepare their financial statements in accordance with IFRS for fiscal years beginning on or after January 1, 2011. The Company will issue its financial statements in the first quarter of 2011 in accordance with IFRS including comparative data for 2010.

4. 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 credit facilities as described in note 11.

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 (Loss).

5. Inventories:

	2009	2008
Finished goods	\$ 10,085,312	\$ 10,673,845
Work in progress	1,434,443	1,720,646
Raw materials	2,957,643	2,286,872
	\$ 14,477,398	\$ 14,681,363

During the year ended December 31, 2009, the Company expensed \$36,506,000 of inventory (2008 - \$25,025,000), including a net inventory provision of \$504,627 (2008 - \$112,912) to write-down the value of inventory to net realizable value. There were no inventory write-down reversals during the year.

6. Costs and estimated earnings on uncompleted contracts:

	2009	2008
Costs and estimated earnings on uncompleted contracts	\$ 28,369,377	\$ 8,074,133
Less billings to date	(22,451,602)	(4,619,776)
	\$ 5,917,775	\$ 3,454,357

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

7. 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 difference are as follows:

	2009	2008
Earnings (loss) before income taxes	\$ (8,335,417)	\$ (315,561)
Expected income tax rate	31.0%	31.5%
Computed expected income tax recovery	(2,583,979)	(99,402)
Difference resulting from:		
Non-deductible items	39,358	318,947
Non-deductible goodwill impairment charge	175,957	872,488
U.S. state taxes	57,676	133,874
Withholding taxes on intercompany dividends	-	175,230
Rate differences on temporary differences	843,472	(72,097)
Other	(32,608)	31,306
Provision for income taxes (recovery)	\$ (1,500,124)	\$ 1,360,346

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:

	2009	2008
Future tax assets:		
Financing costs	\$ 32,709	\$ 25,683
Plant and equipment and intangible assets principally due to differences in amortization	36,325	46,254
Net operating loss carryforwards	4,760,409	1,646,511
Environmental liability related to land and building	333,012	334,801
Scientific research and experimental development expenditures	381,042	264,745
Other	433,127	132,085
	5,976,624	2,450,079
Valuation allowance	(4,013)	-
	5,972,611	2,450,079
Future tax liabilities:		
Management contract payments	(1,113,405)	(1,290,321)
Plant and equipment and intangible assets principally due to differences in depreciation and amortization	(1,844,552)	(2,020,173)
Scientific research and experimental development expenditures	(140,983)	(90,197)
Other	-	(37,166)
	(3,098,940)	(3,437,857)
Net future income tax asset (liability)	\$ 2,873,671	\$ (987,778)

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

	2009	2008
Current assets	\$ 475,535	\$ 126,250
Long-term assets	5,497,076	2,323,829
Current liabilities	(140,983)	(90,197)
Long-term liabilities	(2,957,957)	(3,347,660)
	\$ 2,873,671	\$ (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 \$17,810,000 which can be carried forward to reduce future Canadian taxable income. The losses will expire in 2014 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 \$4,000 (2008 - nil) has been recorded against the future tax benefit of the capital losses.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

8. Property, plant and equipment:

December 31, 2009	Cost	Accumulated amortization	Net book value
Land	\$ 4,671,561	\$ -	\$ 4,671,561
Buildings	8,449,299	582,742	7,866,557
Machinery and equipment	12,721,668	3,557,895	9,163,773
Building improvements	527,164	92,605	434,559
Computers	1,047,568	783,956	263,612
Vehicles	107,485	100,331	7,154
Furniture	378,703	212,692	166,011
Leasehold improvements	148,302	105,449	42,853
Construction in progress	160,790	-	160,790
	\$ 28,212,540	\$ 5,435,670	\$ 22,776,870

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

9. Intangible assets:

December 31, 2009	Cost	Accumulated amortization	Net book value
Customer relationships	\$ 380,000	\$ 80,750	\$ 299,250
Trade names and trademarks	230,000	97,750	132,250
Non-compete agreements	210,000	89,250	120,750
	\$ 820,000	\$ 267,750	\$ 552,250

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
	\$ 820,000	\$ 141,750	\$ 678,250

10. Goodwill:

CICA Handbook section 3064 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, 2009, 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 three segments.

At December 31, 2009, the recorded value of Locomotive segment goodwill exceeded the fair value and a non-cash write-down of \$2,587,603 (2008 - \$2,769,802) was required for goodwill recorded in 2007 related to the acquisition of CADRI. The primary contributing factor to the impairment of goodwill in both 2009 and 2008 was the operating losses in the Locomotive segment.

Based on the same analysis conducted at December 31, 2008, the Company determined that the recorded value of Locomotive segment goodwill exceeded the fair value and a non-cash write-down of \$2,769,802 was required. The primary contributing factor to the impairment of goodwill was the operating losses in the Locomotive segment driven by the decrease in demand for railcar metal fabrication services.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

11. Credit facilities:

The Company's Credit Agreement with its Lenders provides for a maximum amount of \$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 the Second Amending Agreement to the Company's Credit Agreement. The Term Facility was changed from a revolving, reducing facility to a reducing facility. The principal repayments of long-term debt scheduled for October 1, 2009 and January 1, 2010 totaling \$1,540,000 were postponed until the expiry date of the term credit facility in 2012. The Company's Operating Facility was renewed to the next annual review scheduled for April, 2010 and remains at \$10,000,000. However, the borrowing base related to the Company's inventory was expanded from \$5,000,000 to \$6,500,000. The Company's Hedge Facility was capped at the then current exposure level. A new EBITDA covenant was introduced, requiring the Company to meet minimum quarterly EBITDA targets, with a 15% tolerance, through to the end of 2010. The Lenders 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 Agreement required the Company to enter into a final offer of purchase for 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 was to include a minimum equity injection of \$2,500,000, to be completed by March 31, 2010. Under the amended terms of the Credit Agreement, the Company was 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. The Company has complied with these reporting requirements.

On January 28, 2010 Management and the Lenders agreed to terms for the Third Amending Agreement to the Company's Credit Agreement (See note 23).

On March 31, 2010 Management and the Lenders agreed to terms for the Fourth Amending Agreement to the Company's Credit Agreement (See note 23).

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.

The five year 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. 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. The principal repayments due on October 1, 2009 and January 1, 2010 totaling \$1,540,000 were postponed until the expiry date of the term credit facility in 2012.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

11. Credit facilities (continued):

At December 31, 2009, transaction and financing costs in the amount of approximately \$178,000 (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.

At December 31, 2009, the Company was not in compliance with a Funded Debt to EBITDA covenant, a Fixed Charges Coverage covenant, and an EBITDA covenant under its Credit Agreement. As at December 31, 2009, the Company had a Funded Debt to EBITDA ratio of (11.03) while the Credit Agreement required a ratio of no greater than 3.50. As at December 31, 2009, the Company had a Fixed Charge Coverage ratio of (1.86) while the Credit Agreement required a ratio of no less than 1.25. As at December 31, 2009, the Company's fourth quarter 2009 EBITDA was \$595,000 below the Lenders' requirement. The Lenders have not agreed to waive the covenant breaches at December 31, 2009; however, in the Second Amending Agreement to the Credit Agreement dated December 12, 2009, the Company's Lenders agreed to tolerate the Funded Debt to Earnings Before EBITDA and Fixed Charges Coverage defaults. The Lenders have not altered the terms and conditions of the Credit Agreement. Based on its 2010 projections, the Company expects continued breaches of these covenants during 2010 and has so advised its Lenders. 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 continued discussions with the Lenders regarding the Company's financial situation and covenant breaches; however any resulting amendments to the Credit Agreement, if any, will not be completed until the second quarter of 2010. 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 Consolidated Balance Sheets.

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

	2009	2008
Operating facility	\$ 6,720,000	\$ 2,300,000
Term facility - current portion	\$ 17,380,000	\$ 18,500,000

12. 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.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

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

(a) Financial instruments (continued):

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. In June 2009, the Canadian Accounting Standards Board issued an amendment to CICA Section 3862, "Financial Instruments – Disclosures" in an effort to make Section 3862 consistent with IFRS 7. The purpose was to establish a framework for measuring fair value in GAAP and expand disclosures about fair value measurements. To make the disclosures an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The classification, carrying values, fair values and fair value levels of the Company's financial instruments measured at fair value or on a recurring basis in the Consolidated Balance Sheets are as follows:

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets held for trading:				
Cash (1)	\$ 2,005,824	\$ 2,005,824	\$ 495,722	\$ 495,722
Financial liabilities held for trading:				
Interest rate swap contracts (2)	\$ 12,636	\$ 12,636	\$ -	\$ -

(1) Level 1 - Based on quoted market prices in active markets.

(2) Level 2 - Inputs, other than quoted prices in active markets, that are observable, either directly or indirectly.

(3) Level 3 - Unobservable inputs that are not corroborated by market data.

There were no transfers between Level 1, 2 and 3 in 2009 or 2008.

At December 31, 2009, transaction and financing costs in the amount of approximately \$178,000 (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 December 31, 2009, all of the Company's financial instruments were recorded on the 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 year ended December 31, 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 reducing long-term credit facility. As at December 31, 2009, the interest rate swap contracts were reported at fair value as a liability on the Consolidated Balance Sheets as part of accounts payable and accrued liabilities. 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 December 31, 2009:

Notional principal amount	Maturity	Receive CDOR interest rate	Pay fixed interest rate	Fair value asset (liability)
\$5,000,000	October 2010	0.44%	1.05%	\$ (20,065)
\$5,000,000	October 2011	0.44%	1.30%	7,429
				\$ (12,636)

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

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

(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 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:

	2009	2008
Neither impaired nor past due	\$ 4,896,409	\$ 6,636,949
Impaired	84,115	306,692
Not impaired and past due in the following periods:		
Within 30 days	1,626,510	2,225,008
31 to 60 days	486,984	897,818
61 to 90 days	153,714	464,287
Over 90 days	57,558	1,529,881
Allowance for doubtful accounts	(84,115)	(306,692)
Trade receivables	7,221,175	11,753,943
Other receivables	1,276,352	975,027
Total accounts receivable	\$ 8,497,527	\$ 12,728,970

During 2009, the Company wrote off accounts through a charge of \$332,484 to the allowance for doubtful accounts (2008 - \$205,378). Also during 2009, the Company increased allowance for doubtful accounts in the amount of \$109,907 through bad debt expense included in general and administration expense (2008 - \$221,858), and recorded interest income in the amount of \$nil on its impaired accounts receivable (2008 - \$nil).

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

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

(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 December 31, 2009, a 100 basis point change in the Bank of Canada prime lending rate would improve upon the Company's year end net earnings (loss) of approximately \$94,000 (2008 - \$142,000).

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 December 31, 2009, a 1% strengthening of the United States dollar against the Canadian dollar would improve upon the Company's year end net earnings (loss) of approximately \$167,000 (2008 - \$140,000), and increase other comprehensive income by \$94,000 (2008 - \$81,000).

(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 20. 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 December 31, 2009, the undrawn portion of the Company's available credit facilities was \$2,220,000 (2008 - \$7,890,000) subject to meeting agreed to covenants. Utilizations of the credit facilities include advances borrowed under the bank credit facilities and issuances of letters of credit.

At December 31, 2009, the Company was not in compliance with a Funded Debt to EBITDA covenant, a Fixed Charges Coverage covenant, and an EBITDA covenant under its Credit Agreement. The Company's Lenders have not issued any waivers for this non-compliance; however in the Second Amending Agreement to the Credit Agreement dated December 12, 2009, the Company's Lenders agreed to tolerate the Funded Debt to EBITDA and Fixed Charges Coverage defaults. The Company will not be in compliance with these covenants in 2010 and accordingly will continue discussions with its 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 December 31, 2009:

	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 9,287,389	\$ -	\$ -	\$ -
Purchase commitments	16,289,537	9,758,217	2,425,286	-
Operating loan	6,720,000	-	-	-
Term loan	17,380,000	-	-	-
	\$ 49,676,926	\$ 9,758,217	\$ 2,425,286	\$ -

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

13. 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, as described in Note 4. 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 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 (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.

14. Share capital:

(a) Common and preferred shares:

The authorized share capital of the Company consists of an unlimited number of voting common shares, and an unlimited number of preferred shares. Preferred shares may be issued in one or more series, each consisting of a number of preferred shares, as determined by the Board of Directors who also may fix the designations, rights, privileges, restrictions and conditions attaching to the shares of each series of preferred shares. At December 31, 2009, the Company had issued 15,239,900 common shares (2008 - 15,239,900) and had not issued any preferred shares.

(b) Stock options:

The Company has granted share options to officers, directors, and employees 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:

	2009		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	(389,902)	3.31	(85,000)	4.09
Ending balance	1,121,942	\$ 3.30	1,511,844	\$ 3.30

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

	Number of options	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
December 31, 2009				
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	50,000	4.35
December 2012	65,000	4.59	43,332	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	40,833	0.72
August 2014	140,000	4.90	140,000	4.90
November 2014	210,000	4.35	140,000	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
Total	1,121,942	\$ 3.30	930,273	\$ 3.34

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

14. Share capital (continued):

(b) Stock options (continued):

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

Fair value disclosures:

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

	2009	2008
Expected option life (years)	-	3.50
Risk-free interest rate	-	2.69%
Expected stock price volatility	-	67%
Expected annual dividends per share	\$ -	\$ -

The average fair value of options granted during 2008 was \$0.86 per option. No options were granted in 2009.

15. Commitments:

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

2010	\$ 276,483
2011	\$ 243,695
2012	\$ 212,352
2013	\$ 200,357
2014	\$ 195,455

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

2010	\$ 16,289,537
2011	\$ 9,758,217
2012	\$ 2,425,286

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 \$8,048,000 with a company owned by the President of CADRI.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

16. 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 \$1,108,000 for all executive employment contracts.
- (b) The Company has received \$3,743,396 in prepayments from a customer. 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 these prepayments. Upon written demand, the customer is able to draw partially, or in full, upon this guarantee. The guarantee expires on December 10, 2010, but is automatically renewable for an additional period of one year.
- (c) The Company has issued guarantees in the form of irrevocable standby letters of credit, in amounts totalling \$59,535, 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 February 1, 2010 and July 15, 2010.
- (d) In the normal course of business, the Company provides indemnification commitments to customers in the form of annual performance bonds. These indemnification commitments generally require the Company to compensate the customers, upon demand, for costs or losses resulting from the Company's failure to fulfill its contractual obligations. The terms of these indemnification agreements vary based on the contract and generally do not exceed one year. As at December 31, 2009, the Company's potential liability under indemnification commitments is \$15,000,000 (2008 - \$9,000,000). Historically, the Company has not made any payments under such indemnifications and accordingly, as of December 31, 2009, no amount has been accrued in the Consolidated Financial Statements.

17. Amortization:

	2009	2008
Amortization of property, plant and equipment and intangible assets	\$ 1,649,554	\$ 1,562,019
Adjustment for the variation of amortization of property, plant and equipment included in inventories	168,010	(424,199)
Amortization included in the consolidated statements of comprehensive income (loss)	\$ 1,817,564	\$ 1,137,820
Consists of:		
Amortization of production property, plant and equipment	\$ 1,460,680	\$ 638,668
Amortization of non-production property, plant and equipment and intangible assets	356,884	499,152
Amortization included in the consolidated statements of comprehensive income (loss)	\$ 1,817,564	\$ 1,137,820

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

18. Earnings (loss) per share:

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

	2009	2008
Weighted average number of common shares outstanding: Basic and diluted	15,239,900	15,200,672

Stock options to purchase 1,121,942 (2008 - 1,511,844) common shares are excluded from the weighted average common shares in the calculation of diluted earnings (loss) per share as they are anti-dilutive.

19. Related party transactions:

- (a) During 2009, CADRI paid approximately \$340,000 for management services provided by a company owned by the President of CADRI (2008 - \$332,000).
- (b) In the normal course of business, CADRI purchased approximately US \$2,334,000 of inventory from a company owned by the President of CADRI during 2009 (2008 - US \$1,751,000). 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.

20. 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.

At December 31, 2009, the Company was not in compliance with a Funded Debt to EBITDA covenant, a Fixed Charges Coverage covenant, and an EBITDA covenant under its Credit Agreement. The Company's Lenders have not issued any waivers for this non-compliance; however in the Second Amending Agreement to the Credit Agreement dated December 12, 2009, the Company's Lenders agreed to tolerate the Funded Debt to EBITDA and Fixed Charges Coverage defaults. The Company will not be in compliance with these covenants in 2010 and accordingly will continue discussions with its 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 Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

21. 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:

Year ended December 31, 2009	Track and Signal	Instrumentation	Locomotive	Corporate	Consolidated
Sales	\$ 20,631,625	\$ 9,860,630	\$ 36,006,287	\$ -	\$ 66,498,542
Direct cost of sales, salaries and general and administrative expenses	15,223,249	6,962,208	42,877,252	5,054,736	70,117,445
	5,408,376	2,898,422	(6,870,965)	(5,054,736)	(3,618,903)
Amortization	47,759	33,656	200,315	75,154	356,884
Interest expense	6,226	20,148	40,960	1,328,832	1,396,166
Goodwill impairment	-	-	2,587,603	-	2,587,603
Other expense (income), net	199,479	284,734	244,125	(352,477)	375,861
Earnings (loss) before income taxes	\$ 5,154,912	\$ 2,559,884	\$ (9,943,968)	\$ (6,106,245)	\$ (8,335,417)

Year ended December 31, 2008	Track and Signal	Instrumentation	Locomotive	Corporate	Consolidated
Sales	\$ 20,972,943	\$ 6,749,443	\$ 34,044,880	\$ -	\$ 61,767,266
Direct cost of sales, salaries and general and administrative expenses	15,776,005	5,159,435	33,095,067	4,153,241	58,183,748
	5,196,938	1,590,008	949,813	(4,153,241)	3,583,518
Amortization	49,730	29,058	350,394	69,970	499,152
Interest expense	21,613	(686)	19,228	942,152	982,307
Goodwill impairment	-	-	2,769,802	-	2,769,802
Other expense (income), net	(82,326)	(180,669)	(319,169)	229,982	(352,182)
Earnings (loss) before income taxes	\$ 5,207,921	\$ 1,742,305	\$ (1,870,442)	\$ (5,395,345)	\$ (315,561)

Other segment reporting:

December 31, 2009	Track and Signal	Instrumentation	Locomotive	Corporate	Consolidated
Assets	\$ 20,378,087	\$ 4,090,016	\$ 43,681,157	\$ 2,045,463	\$ 70,194,723
Goodwill	\$ 8,194,136	\$ 785,893	\$ -	\$ -	\$ 8,980,029
Capital expenditures for the year ended	\$ 187,289	\$ 66,907	\$ 511,295	\$ -	\$ 765,491

December 31, 2008	Track and Signal	Instrumentation	Locomotive	Corporate	Consolidated
Assets	\$ 21,027,626	\$ 3,327,538	\$ 44,944,127	\$ 3,094,192	\$ 72,393,483
Goodwill	\$ 8,194,136	\$ 785,893	\$ 2,587,603	\$ -	\$ 11,567,632
Capital expenditures for the year ended	\$ 808,022	\$ 49,332	\$ 6,207,725	\$ -	\$ 7,065,079

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2009 and 2008

21. Segmented information (continued):

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

December 31, 2009	International	United States	Canada	2009
Sales for the year ended	\$ 2,818,467	\$ 34,557,884	\$ 29,122,191	\$ 66,498,542
Property, plant and equipment	\$ -	\$ 3,827,521	\$ 18,949,349	\$ 22,776,870
Intangible assets	\$ -	\$ -	\$ 552,250	\$ 552,250
Goodwill	\$ -	\$ 8,194,136	\$ 785,893	\$ 8,980,029

December 31, 2008	International	United States	Canada	2008
Sales for the year ended	\$ 2,997,492	\$ 29,863,844	\$ 28,905,930	\$ 61,767,266
Property, plant and equipment	\$ -	\$ 4,800,257	\$ 19,368,261	\$ 24,168,518
Intangible assets	\$ -	\$ -	\$ 678,250	\$ 678,250
Goodwill	\$ -	\$ 8,194,136	\$ 3,373,496	\$ 11,567,632

22. Comparative figures:

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

23. Subsequent events:

- (a) On January 28, 2010, Management and the Lenders agreed to terms for the Third Amending Agreement to the Company's Credit Agreement.

The amendments required a final offer of purchase for one or more subsidiaries before March 1, 2010, with a transaction close date of no later than March 31, 2010; or, alternatively, a commitment by March 1, 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 Agreement, the Company is required to continue to provide the Lenders with specified monthly financial information and provide regular updates on the divestiture process.

- (b) On March 31, 2010, the Company and its Lenders agreed to terms for the Fourth Amending Agreement to the Company's Credit Agreement. The amendments require Global to complete the sale of one or more of its subsidiaries with a transaction closing date of no later than June 30, 2010; or a debt or equity financing of not less than \$5,000,000, including a minimum equity injection of \$2,500,000, to be completed by June 30, 2010. The Company is to provide regular updates to the Lenders regarding the progress towards completion of these requirements. The Company is also required to provide the Lenders with enhanced financial reporting.