

Interim Consolidated Financial Statements of

**GLOBAL RAILWAY INDUSTRIES LTD.**

Nine months ended September 30, 2007  
(Unaudited)

# GLOBAL RAILWAY INDUSTRIES LTD.

Interim Consolidated Balance Sheets

As at September 30, 2007 and December 31, 2006

	September 30, 2007	December 31, 2006
	(unaudited)	(audited)
<b>Assets</b>		
Current assets:		
Cash	\$ 9,333,449	\$ 6,830,949
Accounts receivable	3,796,591	3,411,310
Inventories (note 3)	6,765,501	7,055,368
Prepaid expenses	524,111	214,625
Future income taxes (note 4)	81,938	1,065,283
	<u>20,501,590</u>	<u>18,577,535</u>
Property, plant and equipment (note 5)	3,963,819	4,233,435
Future income taxes (note 4)	983,802	722,208
Goodwill	11,749,831	11,749,831
	<u>\$ 37,199,042</u>	<u>\$ 35,283,009</u>

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,562,197	\$ 2,143,323
Income taxes payable	599,709	245,774
	<u>3,161,906</u>	<u>2,389,097</u>
Future income taxes (note 4)	1,434,714	1,581,735
Shareholders' equity:		
Share capital (note 6)	25,413,447	25,326,185
Contributed surplus	1,582,755	979,502
Accumulated other comprehensive loss	(3,694,433)	(1,409,696)
Retained earnings	9,300,653	6,416,186
	<u>32,602,422</u>	<u>31,312,177</u>
Commitments (note 9)		
Contingency (note 10)		
Subsequent event (note 15)		
	<u>\$ 37,199,042</u>	<u>\$ 35,283,009</u>

See accompanying notes to interim consolidated financial statements.

On behalf of the Board:

Terry McManaman    "signed"    Chairman of the Board

Garry Zurowski, CA.    "signed"    Chairman of the Audit Committee

**GLOBAL RAILWAY INDUSTRIES LTD.**

## Interim Consolidated Statements of Comprehensive Income

Three months and nine months ended September 30, 2007 and 2006  
(Unaudited)

	Three months		Nine months	
	2007	2006	2007	2006
Sales	\$ 7,671,270	\$ 7,817,343	\$ 26,380,283	\$ 24,324,039
Cost of goods sold	4,834,119	4,870,877	15,759,814	14,748,671
	2,837,151	2,946,466	10,620,469	9,575,368
Operating expenses:				
Salaries	1,246,999	946,265	3,616,074	2,772,206
General and administration	707,621	528,582	2,510,388	1,785,333
	1,954,620	1,474,847	6,126,462	4,557,539
Other expenses (income):				
Amortization	142,090	121,763	428,286	363,603
Interest, net	(132,903)	(35,411)	(341,912)	(25,724)
Foreign exchange	(244,038)	(8,329)	13,513	(75,544)
	(234,851)	78,023	99,887	262,335
Earnings before income taxes from continuing operations	1,117,382	1,393,596	4,394,120	4,755,494
Income taxes (note 4):				
Current	380,955	(42,370)	724,647	419,803
Future	127,033	832,099	785,006	1,446,258
	507,988	789,729	1,509,653	1,866,061
Net earnings from continuing operations	609,394	603,867	2,884,467	2,889,433
Net earnings (loss) from discontinued operations (note 7)	-	13,127	-	(509,958)
Net earnings	609,394	616,994	2,884,467	2,379,475
Other comprehensive loss:				
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	(1,049,252)	229,799	(2,284,737)	(148,009)
Comprehensive income	\$ (439,858)	\$ 846,793	\$ 599,730	\$ 2,231,466
Net earnings per share from continuing operations (note 8)				
Basic	\$ 0.04	\$ 0.04	\$ 0.19	\$ 0.19
Diluted	\$ 0.04	\$ 0.04	\$ 0.19	\$ 0.19
Net earnings per share				
Basic	\$ 0.04	\$ 0.04	\$ 0.19	\$ 0.16
Diluted	\$ 0.04	\$ 0.04	\$ 0.19	\$ 0.16

See accompanying notes to interim consolidated financial statements.

**GLOBAL RAILWAY INDUSTRIES LTD.**

Interim Consolidated Statements of Shareholders' Equity

Nine months ended September 30, 2007, and year ended December 31, 2006  
(Unaudited)

	Common shares issued	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings
Balance at December 31, 2005	14,856,744	\$ 25,068,800	\$ 649,299	\$ (1,495,269)	\$ 3,248,926
Stock-based compensation	-	-	400,088	-	-
Options exercised	75,000	257,385	(69,885)	-	-
Change in accumulated foreign currency translation adjustment	-	-	-	85,573	-
Net earnings	-	-	-	-	3,167,260
<b>Balance at December 31, 2006</b>	<b>14,931,744</b>	<b>25,326,185</b>	<b>979,502</b>	<b>(1,409,696)</b>	<b>6,416,186</b>
Stock-based compensation	-	-	625,515	-	-
Options exercised	32,500	87,262	(22,262)	-	-
Change in accumulated foreign currency translation adjustment	-	-	-	(2,284,737)	-
Net earnings	-	-	-	-	2,884,467
<b>Balance at September 30, 2007</b>	<b>14,964,244</b>	<b>\$ 25,413,447</b>	<b>\$ 1,582,755</b>	<b>\$ (3,694,433)</b>	<b>\$ 9,300,653</b>

See accompanying notes to interim consolidated financial statements.

## GLOBAL RAILWAY INDUSTRIES LTD.

### Interim Consolidated Statements of Cash Flows

Three months and nine months ended September 30, 2007 and 2006  
(Unaudited)

	Three months		Nine months	
	2007	2006	2007	2006
Cash flows from (used in):				
Operating activities:				
Net earnings from continuing operations	\$ 609,394	\$ 603,867	\$ 2,884,467	\$ 2,889,433
Items not involving cash:				
Amortization of plant and equipment	142,090	121,763	428,286	363,603
Stock-based compensation expense	276,053	29,927	625,515	285,931
Future income tax provision	127,033	832,099	785,006	1,446,258
Gain on sale of property, plant and equipment	-	-	(36,311)	-
Unrealized foreign exchange loss	120,521	-	332,914	-
Changes in non-cash operating working capital:				
Accounts receivable	549,034	208,950	(385,281)	(235,373)
Inventories	877,091	12,560	289,867	193,557
Prepaid expenses	36,718	28,898	(309,486)	(115,409)
Accounts payable and accrued liabilities	(358,124)	212,691	418,874	(57,580)
Income taxes payable	301,113	-	353,935	-
Unrealized foreign currency translation gain (loss)	(1,049,252)	229,799	(2,284,737)	(148,009)
	1,631,671	2,280,554	3,103,049	4,622,411
Investing activities:				
Purchase of property, plant and equipment	(450,463)	(401,287)	(722,702)	(524,061)
Proceeds from disposal of property, plant and equipment	-	-	57,153	-
Other assets	-	-	-	(1,654)
	(450,463)	(401,287)	(665,549)	(525,715)
Financing activities:				
Issuance of share capital	65,000	187,500	65,000	187,500
Change in operating loan	-	-	-	(1,836,366)
Repayment of long-term debt	-	-	-	(3,074,562)
	65,000	187,500	65,000	(4,723,428)
Increase (decrease) in cash from continuing operations	1,246,208	2,066,767	2,502,500	(626,732)
Cash provided by discontinued operations (note 7)	-	189,801	-	4,988,612
Increase in cash	1,246,208	2,256,568	2,502,500	4,361,880
Cash and cash equivalents, beginning of period	8,087,241	2,669,549	6,830,949	564,237
Cash and cash equivalents, end of period	\$ 9,333,449	\$ 4,926,117	\$ 9,333,449	\$ 4,926,117
Cash and cash equivalents comprised of:				
Cash	\$ 9,308,449	\$ 4,926,117	\$ 9,308,449	\$ 4,926,117
Term deposit	\$ 25,000	\$ -	\$ 25,000	\$ -
Supplementary information:				
Interest paid	\$ 591	\$ 349	\$ 1,762	\$ 31,078
Income taxes paid (recovered)	\$ 146,886	\$ (15,114)	\$ 434,444	\$ 21,079

See accompanying notes to interim consolidated financial statements.

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements

Period ended September 30, 2007  
(Unaudited)

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Global Railway Industries Ltd. designs, manufactures, and markets railway maintenance products, equipment and services to the railway industry. The Company was incorporated in the Province of Alberta and is listed under the symbol "GBI" on the Toronto Stock Exchange.

## 1. Significant accounting policies:

### (a) Basis of presentation:

The Company's interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles following the same accounting policies and methods of computation as used in the Company's audited consolidated financial statements for the year ended December 31, 2006, except as described in note 2. Certain information and disclosures normally required to be included in the notes to the annual consolidated financial statements may have been condensed or omitted. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2006.

The interim consolidated financial statements include the accounts of Global Railway Industries Ltd. and its wholly-owned subsidiaries, Bach-Simpson Corporation ("Bach-Simpson"), Prime Steel Inc., and GBI USA Holdings, Inc. (formally YSD Holdings (2004) Inc.) and its wholly-owned subsidiaries, G&B Specialties, Inc. ("G&B") and GBI Industries, Inc. (formally YSD Industries (2004), Inc. ("YSD")). In 2006, Transportation Technologies Inc., and its wholly-owned subsidiary Rafna Industries Ltd., were amalgamated with Bach-Simpson. All significant intercompany transactions and balances have been eliminated upon consolidation.

### (b) Inventories:

Inventories of components and purchased parts are valued at the lower of cost and net realizable value, on a first-in, first-out basis. Finished goods 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
Machinery	10 years
Computers	5 years
Vehicles	5 years
Furniture	10 years
Buildings	40 years
Leaseholds	term of lease

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# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements

Period ended September 30, 2007  
(Unaudited)

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## 1. Significant accounting policies (continued):

(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 to the Company's reporting units that are expected to benefit from the synergies 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 in the statement of earnings before extraordinary and discontinued operations.

(e) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value, less costs to sell and are no longer depreciated. The asset and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements

Period ended September 30, 2007  
(Unaudited)

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## 1. Significant accounting policies (continued):

(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. Revenues for engineering service contracts are recognized as contractual obligations are met.

(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 accounting principles generally accepted in Canada 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 and goodwill, and valuation allowances for accounts receivable, inventories and future income taxes. Actual results could differ from those estimates.

(i) Earnings per share:

Basic earnings per common share are calculated using the weighted average number of common shares outstanding during the year. 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 shares 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 year.

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements

Period ended September 30, 2007  
(Unaudited)

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## 1. Significant accounting policies (continued):

- (j) Stock-based compensation plan:

The Company uses the fair value method for calculating stock-based compensation cost. Under this method, compensation cost 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.

- (k) Foreign currency translation:

As of September 30, 2007, 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 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 income on the Statements of Comprehensive Income.

## 2. Changes in accounting policies:

In the first quarter of 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

- (a) *Section 1530 - Comprehensive Income*, establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting policies.
- (b) *Section 3251 - Equity*, establishes standards for the presentation of equity in the reporting period.
- (c) *Section 3855 - Financial Instruments - Recognition and Measurement*, establishes standards for recognizing and measuring financial instruments, namely financial assets, financial liabilities and derivatives.
- (d) *Section 3861 - Financial Instruments - Disclosure and Presentation*, establishes standards for presentation of financial instruments, namely financial assets, financial liabilities and derivatives.

These accounting policy changes were adopted on a prospective basis with no restatement of prior period financial statements.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements

Period ended September 30, 2007

(Unaudited)

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### 2. Changes in accounting policies (continued):

Under these new standards, all financial instruments are required to be classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification.

The Company has implemented the following classifications:

- (i) Cash and cash equivalents are classified as "Financial Assets Held for Trading". These financial assets are marked-to-market through net earnings at each period end.
- (ii) Accounts receivable are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost.
- (iii) Accounts payables and accrued liabilities are classified as "Other Financial Liabilities". After their initial fair value measurement, they are measured at amortized cost.

As a result of adopting Sections 1530 and 3251, the cumulative translation adjustment related to the Company's self-sustaining foreign operations has been reclassified for presentation purposes as accumulated other comprehensive loss on the interim consolidated statement of shareholder's equity.

The adoption of the standards of Sections 3855 and 3861 had no impact on the financial statements for the period ended September 30, 2007.

### 3. Inventories:

	September 30, 2007	December 31, 2006
Finished goods	\$ 4,048,715	\$ 4,067,619
Work in progress	1,215,331	1,325,814
Raw materials	1,501,455	1,661,935
	<u>\$ 6,765,501</u>	<u>\$ 7,055,368</u>

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements

Period ended September 30, 2007  
(Unaudited)

### 4. Income taxes:

The income tax provision differs from the amount which would result from applying the expected income tax rate to earnings before income taxes. The reasons for the differences are as follows:

	Three months		Nine months	
	2007	2006	2007	2006
Continuing operations:				
Earnings before income taxes	\$ 1,117,382	\$ 1,393,596	\$ 4,394,120	\$ 4,755,494
Expected income tax rate	34%	39%	34%	39%
Computed expected income tax expense	379,910	544,724	1,494,001	1,866,061
Difference resulting from:				
U.S. state tax	7,619	-	53,836	-
Other	120,459	245,005	(38,184)	-
Provision for income taxes	\$ 507,988	\$ 789,729	\$ 1,509,653	\$ 1,866,061

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, 2007	December 31, 2006
Future tax assets:		
Financing costs	\$ 111,817	\$ 189,213
Property, plant and equipment and intangible assets principally due to differences in depreciation and amortization	77,300	90,106
Net operating loss carryforwards	840,055	1,465,297
Net capital loss carryforwards	155,276	-
Other	36,568	42,875
	1,221,016	1,787,491
Future tax liabilities:		
Management contract payments	1,141,691	1,338,630
Property, plant and equipment and intangible assets principally due to differences in depreciation and amortization	293,023	243,105
	1,434,714	1,581,735
Valuation allowance	(155,276)	-
Net future income tax asset (liability)	\$ (368,974)	\$ 205,756

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements

Period ended September 30, 2007  
(Unaudited)

### 4. Income taxes (continued):

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

	September 30, 2007	December 31, 2006
Current assets	\$ 81,938	\$ 1,065,283
Long-term assets	983,802	722,208
Long-term liabilities	(1,434,714)	(1,581,735)
	\$ (368,974)	\$ 205,756

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the future tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

The Company has non-capital losses of approximately \$2,400,000 which can be carried forward to reduce future Canadian taxable income. The losses will expire in 2008 to 2017. The Company also has net capital losses of approximately \$485,000 which can be carried forward indefinitely to reduce future taxable capital gains. Due to uncertainty of realization, a valuation allowance of approximately \$155,000 (December 31, 2006 - nil) has been recorded against the future tax benefit of the capital losses.

### 5. Property, plant and equipment:

September 30, 2007	Cost	Accumulated amortization	Net book value
Machinery	\$ 3,378,464	\$ 1,608,887	\$ 1,769,577
Computers	712,602	427,094	285,508
Vehicles	95,405	91,108	4,297
Furniture	181,046	135,838	45,208
Leasehold improvements	104,488	104,488	-
Land	121,506	-	121,506
Buildings	1,879,475	141,752	1,737,723
	\$ 6,472,986	\$ 2,509,167	\$ 3,963,819

  

December 31, 2006	Cost	Accumulated amortization	Net book value
Machinery	\$ 3,033,811	\$ 1,031,963	\$ 2,001,848
Computers	598,694	557,717	40,977
Vehicles	121,012	80,066	40,946
Furniture	286,333	181,584	104,749
Leasehold improvements	68,670	63,870	4,800
Land	142,150	-	142,150
Buildings	2,020,977	123,012	1,897,965
	\$ 6,271,647	\$ 2,038,212	\$ 4,233,435

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements

Period ended September 30, 2007  
(Unaudited)

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### 6. 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, 2007, the Company 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 two years from the date of grant. Changes in the number of options outstanding, with their weighted average exercise prices, are summarized below:

	September 30, 2007		December 31, 2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	1,105,000	\$ 2.70	645,000	\$ 2.89
Granted	190,000	4.48	810,000	2.60
Exercised	(32,500)	2.00	(75,000)	2.50
Cancelled or expired	(55,000)	3.61	(275,000)	2.90
Ending balance	1,207,500	\$ 2.96	1,105,000	\$ 2.70

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements

Period ended September 30, 2007  
(Unaudited)

### 6. Share capital (continued):

(b) Stock options (continued):

At September 30, 2007, 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
January 2008	22,500	\$ 2.00	22,500	\$ 2.00
January 2009	90,000	4.40	90,000	4.40
June 2010	30,000	3.70	20,000	3.70
November 2010	90,000	1.30	60,000	1.30
December 2010	50,000	1.95	50,000	1.95
January 2011	275,000	2.00	275,000	2.00
August 2011	60,000	3.10	60,000	3.10
August 2014	140,000	4.90	-	-
November 2015	100,000	2.84	-	-
December 2016	300,000	3.12	-	-
April 2017	50,000	3.30	-	-
<b>Total</b>	<b>1,207,500</b>	<b>\$ 2.96</b>	<b>577,500</b>	<b>\$ 2.47</b>

At December 31, 2006, 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
August 2007	25,000	\$ 2.00	25,000	\$ 2.00
January 2008	30,000	2.00	30,000	2.00
January 2009	90,000	4.40	90,000	4.40
June 2009	30,000	4.95	30,000	4.95
June 2010	30,000	3.70	10,000	3.70
November 2010	90,000	1.30	60,000	1.30
December 2010	50,000	1.95	27,500	1.95
January 2011	300,000	2.00	50,000	2.00
August 2011	60,000	3.10	-	-
November 2015	100,000	2.84	-	-
December 2016	300,000	3.12	-	-
<b>Total</b>	<b>1,105,000</b>	<b>\$ 2.70</b>	<b>322,500</b>	<b>\$ 2.86</b>

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements

Period ended September 30, 2007  
(Unaudited)

### 7. Discontinued operations:

In October, 2005, the Company announced the close of the operations of YSD. In December, 2005, the Company sold YSD land and buildings in Youngstown, Ohio. The remaining YSD assets were sold in 2006. Cash flow from YSD operations was nil during the first nine months of 2007 (2006 - \$4,988,612).

There was no operating activity related to YSD during the first nine months of 2007. YSD's net loss for the nine months ended September 30, 2006 was \$509,958.

### 8. Earnings per share:

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

	Three months		Nine months	
	2007	2006	2007	2006
Weighted average number of common shares outstanding:				
Basic	14,954,461	14,899,951	14,939,400	14,871,304
Effect of stock options	355,922	160,398	260,044	120,814
Diluted	15,310,383	15,060,349	15,199,444	14,992,118

### 9. Commitments:

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

Remainder of 2007	\$	67,367
2008	\$	268,899
2009	\$	259,722
2010	\$	139,723
2011	\$	46,790
2012	\$	10,911

### 10. Contingency:

The Company is a party to a management employment contract which requires payment of a certain amount upon a change of control and the occurrence of an event that constitutes constructive dismissal of the executive within twelve months of the change of control. This would result in an additional expense of approximately USD \$550,000.

### 11. Related party transactions:

The Company leases an office building from the previous owners of G&B, one of which was previously a member of Global's Board of Directors. The lease payments are USD \$79,350 per year until expiry in 2010.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Interim Consolidated Financial Statements

Period ended September 30, 2007  
(Unaudited)

### 12. Financial instruments:

The carrying values of the Company's financial assets and liabilities, consisting of cash, accounts receivable, accounts payable and accrued liabilities, and income taxes payable, approximate their fair values due to the relatively short periods to maturity of the instruments.

(a) Credit risk:

Credit risk arises from the possibility that the entities to which the Company sells products and services may experience difficulty and be unable to fulfill their obligations. The Company is exposed to financial risk that arises from the credit quality of the entities to which it sells products and services. The Company's revenues depend primarily on the level of spending by the major railways, original equipment manufacturers and transit authorities. The majority of the Company's customers consist of large companies in the railway industry with good credit standing. As a result, the requirement for credit risk related reserves for accounts receivable is minimal.

(b) Interest rate risk:

Interest rate risk arises from the possibility that the value of, or cash flows related to, a debt instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to financial risk that arises from the interest rate differentials between the market interest rate and the rates on its financial instruments.

(c) Foreign exchange rate fluctuation:

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. The fair values of financial instruments reflected on the balance sheet approximate the carrying values at September 30, 2007 and at December 31, 2006.

### 13. Segmented information:

The Company's operations are based on one dominant industry segment which is primarily the manufacture and sale of railway maintenance equipment. The following is a summary of the Company's sales, property, plant and equipment, and goodwill, by segment.

	United States	Canada	September 30, 2007
Sales - three months ended	\$ 6,056,676	\$ 1,614,594	\$ 7,671,270
Sales - nine months ended	\$ 20,521,169	\$ 5,859,114	\$ 26,380,283
Property, plant and equipment	\$ 3,482,888	\$ 480,931	\$ 3,963,819
Goodwill	\$ 8,194,136	\$ 3,555,695	\$ 11,749,831

  

	United States	Canada	September 30, 2006
Sales - three months ended	\$ 6,434,729	\$ 1,382,614	\$ 7,817,343
Sales - nine months ended	\$ 19,965,373	\$ 4,358,666	\$ 24,324,039
Property, plant and equipment	\$ 3,690,339	\$ 373,101	\$ 4,063,440
Goodwill	\$ 8,194,136	\$ 3,555,695	\$ 11,749,831

## **GLOBAL RAILWAY INDUSTRIES LTD.**

Notes to Interim Consolidated Financial Statements

Period ended September 30, 2007  
(Unaudited)

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### **14. Comparative figures:**

Certain of the 2006 comparative figures have been reclassified to conform with the financial statement presentation adopted in the current period.

### **15. Subsequent event:**

On October 10, 2007, the Company signed a binding Asset Purchase Agreement to acquire substantially all of the net working capital, land, building, plant equipment and machinery, and other intangible assets 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 approximately \$22,000,000. The purchase price is subject to final adjustments based upon the final net working capital value. The signing of the binding Asset Purchase Agreement between the Company and CAD supersedes the non-binding letter of intent to acquire CAD announced by the Company on July 30, 2007. The Company expects the acquisition to close before the end of 2007.