



GLOBAL RAILWAY INDUSTRIES LTD.



FIRST QUARTER INTERIM REPORT TO SHAREHOLDERS

Three months ended March 31, 2005

Q1

PERFORMANCE DATA

THREE MONTHS ENDED MARCH 31

	2005	2004
Revenue	\$ 10,814,789	\$ 8,074,622
Net earnings	480,966	1,074,286
Per share – basic	0.03	0.08
Per share – diluted	0.03	0.08
EBITDA	1,043,199	1,905,927
Common shares outstanding (#)		
Basic	14,161,744	12,984,048
Diluted	14,768,498	13,469,167

## REPORT TO SHAREHOLDERS

Global Railway Industries Ltd. is please to enclose the consolidated financial statements for the first quarter ending March 31, 2005.

Net income decreased during the quarter from the comparative quarter due to the inclusion of losses from YSD and from decreases in net income at Rafna and Prime. These decreases in net income were partially offset by an increase in net income in the current quarter at G&B. Bach's revenues are comparable to revenues generated for the same period a year ago.

YSD was purchased April 5, 2004 and the comparative quarter does not contain results of operations from YSD. As of May 9, 2005 all of the new equipment is in place, all outsourcing of parts and components has been completed, the operation has been downsized from 750,000 square feet into approximately 250,000 square feet in the same location and the current backlog extends to September 2005.

The completion of the reorganization equates to significantly reduced costs, substantially improved operating efficiencies, more consistent product quality and very good revenue visibility given YSD's backlog. Global's management believes that YSD is now positioned to be the dominant rail car parts supplier in North America.

Prime had a slow start to the year and this was a function of the significant amount of spending by the customers of Prime that occurred in the latter part of 2004. Starting in March 2005 spending in Prime's market has normalized.

The decrease in income at Rafna is completely related to the timing of delivery of orders. Year to date, Rafna's order intake is significantly ahead of the comparable period in 2004, however deliveries in the first quarter of 2005 were less than the comparative period.

G&B has experienced significant increases in spending in its product market and is on track to deliver significant growth in profitability in 2005.

Thank you for your continued support of Global Railway Industries Ltd.

Yours truly,



Mike Kohut  
President

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements for Global Railway Industries Ltd. have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these financial statements conform with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

The Audit Committee comprised of a majority of non-management directors, acts on behalf of the Board of Directors to ensure that the management fulfills its financial reporting and internal control responsibilities. In performing its duties, the Audit Committee acts only in an oversight capacity and necessarily relies on the work and assurances of the Company's management. In reliance on reviews and discussions with management, and in light of its roles and responsibilities, the Audit Committee recommended to the Board of Directors, and the Board have approved the financial statements for the period ended March 31, 2005.

These interim financial statements have not been reviewed or audited by the Company's auditors



Mike Kohut  
President

## CONSOLIDATED BALANCE SHEETS

	<b>MARCH 31 2005</b> (unaudited)	<b>DECEMBER 31 2004</b> (audited)
<b>Assets</b>		
Current		
Cash	\$ -	\$ -
Accounts receivable	7,543,746	6,810,611
Inventories	11,794,685	10,730,214
Prepays	366,041	352,523
	<b>19,704,472</b>	17,893,348
Deferred development costs	1,232,909	1,434,383
Other assets	341,127	354,644
Plant and equipment	8,332,066	6,713,586
Future income tax	117,030	212,000
Goodwill	11,311,297	11,311,297
	<b>\$ 41,038,901</b>	<b>\$ 37,919,258</b>
<b>Liabilities</b>		
Current		
Operating Loan	\$ 3,087,038	\$ 52,194
Accounts payable and accrued liabilities	3,819,727	3,473,696
Current portion, long term debt	1,850,633	2,233,689
	<b>8,757,398</b>	5,759,579
Long term debt	2,760,683	3,006,300
	<b>11,518,081</b>	8,765,879
<b>Shareholders' Equity</b>		
Share Capital	23,323,616	23,084,902
Contributed surplus	525,075	488,383
Cumulative translation adjustment	(1,776,095)	(1,387,164)
Retained earnings	7,448,224	6,967,258
	<b>29,520,820</b>	29,153,379
	<b>\$ 41,038,901</b>	<b>\$ 37,919,258</b>

## CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

THREE MONTHS ENDED MARCH 31, (unaudited)	2005	2004
Sales	\$ 10,814,789	\$ 8,074,622
Cost of sales	<b>(8,081,035)</b>	(4,901,098)
Gross Margin	<b>2,733,754</b>	3,173,524
Operating Expenses		
Salaries	<b>1,157,320</b>	763,950
General and administrative	<b>533,235</b>	503,647
Operating income before the following	<b>1,043,199</b>	1,905,927
Depreciation and amortization	<b>258,766</b>	156,547
Amortization of deferred development costs	<b>69,451</b>	-
Interest-net	<b>127,158</b>	46,365
Foreign exchange (gain) loss	<b>(67,436)</b>	75,668
Earnings before income taxes	<b>655,260</b>	1,627,347
Income tax expense	<b>174,294</b>	553,061
Net earnings	<b>480,966</b>	1,074,286
Retained earnings, beginning of period	<b>6,967,258</b>	5,295,274
Retained earnings, end of period	<b>\$ 7,448,224</b>	\$ 6,369,560
Earnings per share		
Basic	<b>\$ 0.03</b>	\$ 0.08
Fully diluted	<b>\$ 0.03</b>	\$ 0.08

## CONSOLIDATED STATEMENT OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, (unaudited)	2005	2004
<b>CASH FLOWS PROVIDED BY (USED IN):</b>		
<b>OPERATIONS</b>		
Net earnings for the period	\$ 480,966	\$ 1,074,286
Items not involving cash:		
Future tax	94,970	19,222
Stock based compensation expense	48,406	-
Unrealized foreign exchange (gain) loss	(39,780)	57,368
Depreciation and amortization	258,766	156,547
Amortization of deferred development	69,451	-
Funds from operations	<u>912,779</u>	1,307,423
Change in non-cash working capital balance:		
Accounts receivable	(733,135)	(1,537,272)
Inventories	(1,064,471)	(342,121)
Prepays	(13,518)	(40,409)
Account payable	346,031	1,049,264
Foreign currency loss on working capital balance	(256,908)	-
	<u>(809,222)</u>	436,885
<b>INVESTMENTS</b>		
Purchase of capital assets	(1,877,246)	(147,317)
Other assets	13,517	(4,580)
	<u>(1,863,729)</u>	(151,897)
<b>FINANCING</b>		
Issuance of share capital	227,000	12,479,502
Share issue costs	-	(799,806)
Repayment of long term debt	(588,893)	(1,352,554)
	<u>(361,893)</u>	10,327,142
<b>(DECREASE) INCREASE IN CASH</b>	<b>(3,034,844)</b>	10,612,130
CASH (operating loan) beginning of period	<u>(52,194)</u>	626,926
CASH (operating loan) end of period	<u>\$ (3,087,038)</u>	\$ 11,239,056

## NOTES TO FINANCIAL STATEMENTS

The interim financial statements of Global Railway Industries Ltd. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles. Certain information and disclosures normally required to be included in the notes to the annual financial statements have been condensed or omitted. The Interim Financial Statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2004. Except as otherwise disclosed in these notes, the Interim Financial Statements have been prepared following the same accounting policies and methods of computation as used in the financial statements for the year ended December 31, 2004.

### 1. BUSINESS OF THE COMPANY

Global Railway Industries Ltd. designs, manufactures and markets railway maintenance products, equipment and services to the railway industry.

### 2. SHARE CAPITAL

Authorized

Unlimited number of common voting shares

Unlimited number of preferred redeemable shares

	<b>Issued</b>	<b>Amount</b>
Common Shares, December 31, 2004	14,101,744	\$ 23,084,902
Options Exercised	60,000	227,000
Reclassification from contributed surplus on exercise of stock options	<u>—</u>	<u>11,714</u>
	<u>14,161,744</u>	<u>\$ 23,323,616</u>

### 3. SUBSEQUENT EVENT

On April 12, 2005 Global announced the closure of Rafna Industries Ltd. The manufacturing of Rafna rail gear will be completed by Global's subsidiary, G&B Specialties Inc., located in Berwick, Pennsylvania.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is the Management's Discussion and Analysis of the Corporation's quarterly financial results of operations for the period ended March 31, 2005.

	March 2005	March 2004
Sales	\$ 10,814,789	\$ 8,074,622
Net Earnings	480,966	1,074,286
Earnings Per Share		
Basic	\$ 0.03	\$ 0.08
Fully diluted	\$ 0.03	\$ 0.08

### REVENUE

Revenue for the quarter ended March 31, 2005 includes revenues from Rafna Industries Ltd., Bach-Simpson, Prime Steel Inc., G&B Specialties, Inc. and YSD Industries (2004) Inc. YSD was acquired effective April 5, 2004 and the comparative quarter does not include revenue from YSD.

The increase in revenues during the first three months of 2005 is due primarily to the inclusion of revenue from YSD, off set by a decrease in revenues in Prime and Rafna. G&B revenues measured in U.S. dollars increased in the current year over the comparative period, however this increase was reduced when converted into Canadian dollars as a result of the lower foreign exchange rate in current quarter versus the comparative period. Bach-Simpson's revenues are comparable to revenues generated for the same period a year ago.

### COST OF SALES/GROSS MARGINS

Overall gross margins decreased from 39% to 25% compared to the corresponding period. The decrease in gross margins relates primarily to the inclusion of operations from YSD which has been generating lower gross margins than the other subsidiaries.

### OPERATING EXPENSES

The increase in salaries is the result of the inclusion of salaries from YSD for the three month period ended March 31, 2005 and a general cost of living increase provided to employees.

The increase in general and administrative expense is the result of the inclusion of expenses from YSD for the three month period ended March 31, 2005, offset by a decrease in expenditures at Prime and G&B. A refund of insurance premiums contributed to the reduction in general and administrative expenses at G&B.

### INTEREST EXPENSE - NET

During the three month period ended March 31, 2005 Global utilized its operating line of credit versus surplus cash balances during the three month period ended March 31, 2004. This has resulted in an increase in the interest expense for the three months ended March 31, 2005.

### INCOME TAX

The effective tax rate on income earned during the first quarter was 27% versus 34% for the comparative prior year period.

### NET EARNINGS

Net earnings for the quarter ended March 31, 2005 had decreased from the previous quarter due to losses incurred by YSD, as well as a reduction in net income in Prime and Rafna versus the comparative period.

## **LIQUIDITY AND CAPITAL RESOURCES**

Global believes that adequate amounts of cash and cash equivalents are available in both the short-term and long-term to provide for ongoing operations and planned growth. Global is not aware of any trends or expected fluctuations in its liquidity that would create any deficiencies.

Global has a \$5 million operating loan with a senior Canadian bank. In addition, Global has an unutilized \$10 million committed revolving facility to fund all or part of future acquisitions. Global believes it can raise capital in excess of these amounts, if required to complete any future acquisitions.

### **Capital Expenditures**

During the 3 months ended March 31, 2005 approximately \$1.9 million was spent on capital expenditures. The majority of these expenditures have been incurred to ready and install new machinery at YSD and G&B.

### **Share Capital**

At March 31, 2005 Global has 14,161,744 common shares outstanding. If all of the warrants and options were exercised Global would have 15,639,244 common shares outstanding.

### **Business Risks**

The business and operational risks remain unchanged from December 31, 2004. For additional guidance please review the annual report.

## **FORWARD LOOKING INFORMATION**

A number of matters discussed in the Management's Discussion and Analysis are not historical or current facts and deal with potential future circumstances and developments and are forward looking statements within the meaning of applicable securities law. Such statements are qualified by inherent risks and uncertainties surrounding future expectations generally, and the Corporation's actual results and experience involving anyone or more of the matters set forth in forward looking statements.

April 22, 2005