# GLOBAL RAILWAY INDUSTRIES LTD.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# FOR THE YEAR ENDED DECEMBER 31, 2007

The following is Management's Discussion and Analysis ("MD&A") of Global Railway Industries Ltd.'s (the "Company" or "Global") financial results of operations for the year ended December 31, 2007. This MD&A has been prepared as of March 19, 2008. Except where otherwise indicated, all financial information is expressed in Canadian dollars. Several accounting policy and procedural changes were made in 2007 as noted herein. This discussion is intended to assist the reader in understanding the dynamics of the Company's business and the key factors underlying its financial results. This discussion should be read in conjunction with the Company's annual consolidated financial statements, which are available on SEDAR at www.sedar.com.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management prepared the financial statements for the Company and is responsible for the integrity and fairness of the data presented therein. The accounting policies followed in the preparation of the financial statements conform to Canadian generally accepted accounting principles ("GAAP"). When alternative accounting methods existed, Management chose those it deemed most appropriate in the circumstances. This MD&A has been prepared in accordance with the requirements of National Instrument 51-102 – Ongoing Requirements for Issuers and Insiders - of the Canadian Securities Administrators.

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the Company are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal controls over financial reporting. The Board of Directors, of which a majority is comprised of independent directors, acts to ensure that Management fulfills its financial reporting and internal control responsibilities. In performing its duties, the Board of Directors 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 Board of Directors has approved the Company's annual consolidated financial statements.

### Strategy

The Company's strategy is to consolidate and rationalize small and medium sized railway equipment suppliers to provide a one stop shopping service for its customers. Management continues to evaluate acquisition opportunities for complementary and strategic product lines, and for products which can benefit from utilization of the Company's existing sales, distribution and manufacturing operations. To maintain its position with each customer, the Company supplies well designed, high quality, competitively priced products in a timely manner.

**GLOBAL RAILWAY INDUSTRIES LTD.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

Management's ultimate objective is to deliver long-term value to the Company's shareholders through organic growth and strategic acquisitions.

**Performance Data**

For the three month and twelve month periods ended December 31, 2007, with comparative figures for 2006 and 2005:

| | Three months | | | Twelve months | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2007 | 2006 | 2005 |
| | | (unaudited) | | | (audited) | |
| Sales | $10,432,403 | $7,559,864 | $7,114,866 | $36,812,686 | $31,883,903 | $29,881,306 |
| Net earnings (loss): | | | | | | |
| Continuing operations | 408,687 | 737,408 | (40,431) | 3,293,154 | 3,626,841 | 1,790,055 |
| Discontinued operations | - | 50,377 | (3,312,721) | - | (459,581) | (5,508,387) |
| Net earnings for the period | $408,687 | $787,785 | ($3,353,152) | $3,293,154 | $3,167,260 | ($3,718,332) |
| Net earnings per share from continuing operations: | | | | | | |
| Basic | $0.03 | $0.05 | $0.00 | $0.22 | $0.24 | $0.12 |
| Diluted | $0.03 | $0.05 | $0.00 | $0.22 | $0.24 | $0.12 |
| Net earnings per share: | | | | | | |
| Basic | $0.03 | $0.05 | ($0.23) | $0.22 | $0.21 | ($0.26) |
| Diluted | $0.03 | $0.05 | ($0.23) | $0.22 | $0.21 | ($0.26) |
| Weighted average number of common shares outstanding: | | | | | | |
| Basic | 15,022,234 | 14,931,744 | 14,856,744 | 14,960,278 | 14,886,539 | 14,523,202 |
| Diluted | 15,351,655 | 15,092,843 | 14,856,744 | 15,228,082 | 15,033,270 | 14,715,235 |
| Total Assets | $58,571,691 | $35,283,009 | $40,415,162 | $58,571,691 | $35,283,009 | $40,415,162 |
| Total Long-Term Liabilities | $16,155,660 | $1,581,735 | $1,192,940 | $16,155,660 | $1,581,735 | $1,192,940 |

# GLOBAL RAILWAY INDUSTRIES LTD.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# FOR THE YEAR ENDED DECEMBER 31, 2007

## Significant Events in the Fourth Quarter of 2007

Excluding acquisition-related sales, the Company's subsidiaries delivered record sales for the fourth quarter of 2007 and also for the year ended December 31, 2007, measured in local currencies on a combined basis. This accomplishment emphasizes the continued ability of the Company's subsidiary management teams to drive sales and capture their share of expanded capital spending by the North American Class 1 railroads.

In November 2007, the Company acquired the business assets and net working capital of Canada Allied Diesel Co. Ltd., CAD Railway Services Inc. and Engine System Development Center Inc., and certain land and buildings used in the business and owned by Lachine Rail Centre Inc. (collectively "CAD"), based in Lachine, Quebec. The Company subsequently assigned its rights under the asset purchase agreement ("APA") to CAD Railway Industries Ltd. ("CADRI"), formerly Prime Steel Inc., a wholly owned subsidiary of the Company. The acquisition of CAD provides an extension to the Company's customer base in North America and internationally, as well as providing potential sales and supply synergies with Bach-Simpson and Prime. The acquisition of CAD also provides a broader balance to the Company's revenue base and operations between Canada and the United States, and reduces the Company's net exposure to foreign exchange currency fluctuations. Additionally, the Company's product coverage now becomes more equally distributed over the three major expenditure categories of its railroad customers; track & signal, locomotive and rail cars. Furthermore, the acquisition of CAD allows the Company to shift from a component based supplier to a complete assembler and remanufacturer of locomotives and rail cars. This strategic shift will provide the Company with broader access to the North American market and generates a new platform for future strategic acquisitions.

In November 2007, the Company entered into a one year credit agreement with two chartered Canadian banks. The aggregate amount of the bank credit facility is $34.1 million and is comprised of: (i) a demand revolving operating facility in the principal amount of $10.0 million; (ii) a five year revolving, reducing, term loan in the principle amount of $22.0 million to finance the CAD acquisition, working capital, capital expenditures and other acquisitions; (iii) a hedge facility in the maximum aggregate amount of $2.0 million to enable the Company to manage 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. Establishment of these credit facilities provides the Company's Management with financial flexibility to pursue its strategic acquisition targets.

In December 2007, CADRI was awarded a $101.5 million contract to remanufacture VIA Rail Canada's ("VIA") fleet of 53 F40 locomotives. This contract award positions the

Company as the largest independent remanufacturer of locomotives in Canada and as a major competitor in North America. The VIA fleet renewal program will see the full remanufacture of its F40 locomotives, including several technological upgrades, and is expected to be completed by the end of 2012. The synergies of the VIA remanufacturing program extend to Bach-Simpson, a supplier of locomotive instrumentation. Revenues generated from this contract, which is denominated in Canadian dollars, provide improved balance to the Company's overall operations between Canada and the United States.

**Sales**

Through its three subsidiaries, the Company generates sales primarily from the sale of track switching components, rail car parts, event recorders with crash hardened memory modules, the remanufacture of locomotives, the repair of rail cars, and the remanufacture of locomotive and marine engines and parts. Sales originate predominantly in the United States of America and Canada, with less than 3% from other countries. Sales for the three month period ended December 31, 2007 were $10.4 million, representing an increase of 38.0% compared with the same quarter of 2006. Sales for the year ended December 31, 2007 were $36.8 million, an increase of 15.5% compared with the prior year. The Company's 2007 sales results include approximately $3.5 million generated from approximately six weeks of CAD activity.

In 2007, approximately 88% of the Company's sales were transacted in United States dollars. Therefore, fluctuations in the value of the Canadian dollar against the United States dollar affect the Company's results when the United States dollar denominated sales and expenses are translated into Canadian dollars. A stronger Canadian dollar decreases the Company's United States dollar denominated sales and expenses. It also decreases overall net income because there are more sales than expenses transacted in United States dollars.

The effect of the fluctuating value of the Canadian dollar against the United States dollar negatively impacted the Company's 2007 year-to-date and fourth quarter sales growth. Had the exchange rate remained constant year over year, 2007 fourth quarter sales would have increased by 54.2% compared with sales in the same three month period of 2006, and 2007 annual sales would have increased by 20.6% compared with sales for 2006.

The acquisition of CAD reduces the Company's net exposure to foreign exchange fluctuations. In 2008, Management estimates that approximately 40% to 45% of the Company's sales will be denominated in Canadian dollars, compared to approximately 12% in 2007.

**Gross Margins**

Gross margins for the fourth quarter of 2007 were 33.1%, compared with 38.9% for the same period in 2006. The gross margin erosion experienced in the fourth quarter of 2007 is attributable to CADRI's lower margin sales. Gross margins for the year ended December 31, 2007 were 38.2%, compared with 39.3% for 2006, which met Management's expectations. For 2008, gross margins between 29.0% and 31.0% are expected.

**Operating Expenses**

Salary expenses for the fourth quarter of 2007 were $311,000 higher than for the same period in 2006, with $270,000 attributable to CADRI's Lachine Division. During the fourth quarter of 2007, the Company incurred an expense of approximately $169,000 related to non-cash stock-based compensation compared with approximately $114,000 in the same quarter of 2006.

Salary expenses for the year ended December 31, 2007 were $1.2 million higher than for the same period in 2006, with $270,000 attributable to CADRI's Lachine Division. During the first quarter of 2006, the Company benefited from an employment contract settlement which favourably affected its salary expense by $165,000 for the period. No similar favourable item was realized in 2007. Year over year increases in stock-based compensation expense totaled approximately $394,000. The Company strengthened its management team by hiring a new Chief Operating Officer (July 2006), Chief Financial Officer (April 2007), and G&B Controller (December 2006). These hirings increased 2007 salaries by approximately $247,000 compared to 2006. Regular merit increases and the addition of other personnel account for the remainder of the increase for the 2007 fiscal year.

General and administrative expenses for the fourth quarter of 2007 were $352,000 higher than the same period in 2006, with $316,000 attributable to CADRI's Lachine Division. Professional fees related to audits, internal control reviews, legal and tax support were $11,000 higher in the fourth quarter of 2007 compared to the same quarter in 2006.

General and administrative expenses for the year ending December 31, 2007 were $1.1 million higher than the same period in 2006, with $352,000 attributable to CADRI's Lachine Division. Professional fees related to Internal Controls Over Financial Reporting reviews, audits, quarterly financial statement reviews, legal and tax support were $613,000 in 2007 compared with $403,000 in the same period in 2006. Board of Directors fees for the year ended December 31, 2007 totaled $282,000 compared to $172,000 in 2006. Public company administration costs were $115,000 in 2007 compared with $70,000 in the same period in 2006. Other costs, primarily associated

with the administration of the new office in Rochester, increased by $45,000 for the year ended 2007 compared to 2006. Workers compensation costs associated with a 2005 reassessment totaled approximately $100,000 in 2007 compared to nil in 2006. Corporate development costs incurred during 2007 totaled $206,000 compared to $58,000 in 2006.

Salaries and general administrative expenses for the three months ended December 31, 2007 were 23.5% of sales, compared with 23.7% for the same period in 2006. Salaries and general administrative expenses for the year ended December 31, 2007 were 23.3% of sales, compared with 19.9% for the same period in 2006. For 2008, Management expects salaries and general administrative expenses to range between 16.0% and 18.0% of sales.

**Interest Income/Expense**

For the three month period ended December 31, 2007, net interest expense was $89,000 compared with net interest income of $45,000 in the 2006 fourth quarter. For the year ended December 31, 2007, net interest income was $182,000 higher than the same period in 2006. During the fourth quarter of 2007, the Company utilized $8.0 million of cash for the acquisition of CAD, and financed the balance of the acquisition price and transaction costs through bank debt. During 2007, the Company earned royalty income of $103,000 relating to a product line sold in 2006. For financial statement purposes, royalty income has been classified as interest income. No royalty income was earned in the fourth quarter of 2007. No royalty income was earned in 2006. As at December 31, 2007, the Company had $895,000 in cash and approximately $13.5 million in bank debt.

**Income Tax**

The 2007 fourth quarter effective tax rate on income earned from continuing operations was 47.3% compared with 31.6% for 2006. In the 2007 fourth quarter, the Company adopted a more conservative approach in computing the amount of deduction for state taxes when calculating the United States federal tax provision. This change increased the fourth quarter 2007 tax provision by approximately 9.3%. Non-deductible stock-based compensation expense increased the fourth quarter 2007 tax provision by approximately 9.7% above the expected rate. Favourable rate differences, other non-deductible items, and other book-to-tax reconciling items accounted for most of the remaining variance between the expected and effective tax rates.

The 2007 effective tax rate on income earned from continuing operations for the year was 36.3% compared with 37.8% for 2006. US state taxes increased the tax provision for the year ended December 31, 2007 by approximately 4.0% above the expected rate. The impact of non-deductible items, tax rate differences and other book-to-tax

reconciling items accounted for the remainder of the variance between the expected and effective tax rates.

The estimated effective tax rate for 2008 is 36.5% to 37.5%.

**Foreign Exchange**

The Company realized foreign exchange gains on net United States dollar denominated liabilities amounting to $79,000 during the fourth quarter of 2007 ($66,000 in foreign exchange gains for the year), compared with foreign exchange gains of $16,000 during the same period in 2006 ($91,000 total foreign exchange gains in 2006).

The acquisition of CAD has positioned the Company with a lower net exposure to future foreign exchange fluctuations.

**Net Earnings**

Net earnings from continuing operations for the fourth quarter of 2007 were $409,000, compared with $737,000 for the same period in 2006. Net earnings for the three month period ended December 31, 2007 were $409,000, compared with $788,000 achieved during the same period of 2006.

Net earnings from continuing operations for the year ended December 31, 2007 were $3.3 million, compared with $3.6 million achieved during the same period in 2006. During the year ended December 31, 2007, there were no losses from discontinued operations compared with $460,000 for the same period in 2006. The Company's net earnings for the year ended December 31, 2007 were $3.3 million, compared with $3.2 million for the same period in 2006.

**Outlook**

The American Association of State Highway and Transportation Officials estimates that as much as $195 billion in railroad investment is needed to carry projected rail-freight volumes by 2020. Despite a bleak economic environment in which United States freight traffic is expected to be flat or down somewhat in 2008, due to softness in some parts of the economy, the North American Class 1 railroads appear poised to press ahead with aggressive long-term capital investment plans. The Company is well positioned with its diverse range of products and services to benefit from the railroads' announced capital spending plans in the areas of infrastructure, locomotives and freight cars, and technology, network and terminal capacity.

# GLOBAL RAILWAY INDUSTRIES LTD.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# FOR THE YEAR ENDED DECEMBER 31, 2007

**Financial Results – Continuing Operations**

| | Q4 '07 | Q3 '07 | Q2 '07 | Q1 '07 | Q4 '06 | Q3 '06 | Q2 '06 | Q1 '06 |
|---|---|---|---|---|---|---|---|---|
| Sales* | $10,432 | $7,671 | $9,216 | $9,493 | $7,560 | $7,817 | $8,684 | $7,823 |
| Net Earnings* | 409 | 609 | 1,087 | 1,188 | 738 | 604 | 1,200 | 1,085 |
| EPS, Basic | 0.03 | 0.04 | 0.07 | 0.08 | 0.05 | 0.04 | 0.08 | 0.07 |
| EPS, Diluted | 0.03 | 0.04 | 0.07 | 0.08 | 0.05 | 0.04 | 0.08 | 0.07 |

* Sales and Net Earnings are stated in thousands of dollars and are from continuing operations

The above table shows the financial performance of continuing operations for the last eight quarters.

**Liquidity and Capital Resources**

As of December, 31, 2007, cash and cash equivalents on hand were $895,000 compared with $9.3 million as at September 30, 2007 and $6.8 million as at December 31, 2006. In the fourth quarter of 2007, the Company utilized $8.0 million of cash for the acquisition of CAD, and financed the balance of the acquisition price and transaction costs through bank debt.

With the new credit facility in place, Management believes that an adequate amount of cash is available in both the short and the long term to provide for ongoing operations and planned growth. Management is not aware of any trends or expected fluctuations in its cash flow that would create liquidity concerns or capital resource deficiencies.

**Capital Expenditures**

For the year ended December 31, 2007, the Company's capital expenditures totaled $1.1 million. Capital expenditures included $452,000 for manufacturing equipment, $276,000 for the implementation of the ERP and accounting system, $176,000 for production facility renovations, $79,000 for computer hardware upgrades, $94,000 for leasehold improvements, and $23,000 for furnishings.

For 2008, the Company's Board of Directors has approved a capital budget in the amount of $7.5 million. Of this amount, approximately $5.0 million has been allocated for the purchase of office and production facilities and approximately $2.0 million has been allocated to CADRI – Lachine Division for production facility modernization.

**Contractual Obligations**

The Company has office and factory lease commitments at Global, G&B, CADRI and Bach-Simpson. These commitments total approximately $604,000 in 2008; $558,000 in 2009; $434,000 in 2010; $338,000 in 2011; and $299,000 in 2012. Bach-Simpson's premises lease expires at the end of 2009. Management is confident that Bach-Simpson will not be negatively impacted by its upcoming lease negotiations.

**Share Capital**

At December 31, 2007, the Company had 15,137,400 common shares outstanding. During the fourth quarter of 2007, a total of 173,156 stock options were exercised for $438,176, and 465,000 additional options were granted in accordance with the Company's Stock Option Plan, and 25,000 options were cancelled. For the year ended December 31, 2007, a total of 205,656 stock options were exercised for $503,175, and 655,000 additional options were granted in accordance with the Company's Stock Option Plan, and 80,000 options were cancelled. If all of the outstanding options were exercised, the Company would have 16,611,744 shares outstanding.

**Business Risks**

The Company's primary business risks are as follows: key personnel, business strategy, credit facilities, multi-year contracts, performance bonds, dependence upon customers, competition, product supply, proprietary rights, insurance, product returns, limited financial resources, and fluctuating exchange rates.

Key Personnel

The Company's senior management team is comprised of its Chairman, President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, and its three subsidiary Presidents. The success of the Company and its business strategy depends, to a degree, upon the skill and efforts of its senior management team and upon its ability to attract and retain qualified personnel. The loss of the services of one or all members of the senior management team could have a material adverse effect on the Company's business, financial condition or results of operations. Additionally, the departure of the Company's CEO, COO or CFO is an event of default under the Company's credit facility agreement. Because the senior management team has many years of experience within the industry, or their individual fields of expertise, it would be difficult to replace them without adversely impacting the Company's operations. The Company does not maintain "key man" insurance for any of its senior management team. The Company does have employment and non-compete agreements in place with each member of its senior management team.

Business Strategy

The Company's business strategy includes the potential acquisition of businesses that would complement and expand existing product lines and services. Management may not be able to identify suitable acquisition opportunities or complete any particular acquisition, combination or other transaction on acceptable terms. In addition, the timing and success of Management's efforts to acquire any particular business and integrate the acquired business into existing operations cannot be predicted. Acquisitions involve a number of risks and challenges, including: i) diversion of Management's attention; ii) the need to integrate acquired operations, internal controls and operational functions; iii) potential loss of key employees and customers of the acquired businesses;; iv) increased expenses and working capital requirements; and v) increased debt or dilution from issuance of additional common shares. Any of these factors could adversely affect the Company's ability to achieve anticipated benefits from an acquisition.

The CAD acquisition exemplifies the above risks. This acquisition provides the Company with a platform upon which to double revenues, expand its customer base, reduce net foreign exchange risk, and balance its product offerings. However, the Company has invested $22.0 million for the acquisition of CAD, taken on debt, and committed senior Management resources to the post acquisition integration. Ultimately, the success of the CAD acquisition will depend on Management's ability to effectively manage the acquisition risks.

Credit Facilities

The Company has entered into a $34.1 million credit agreement with two chartered Canadian banks. The credit facilities are guaranteed by the Company and each if it's wholly owned subsidiaries and are secured by general security interests over substantially all of the assets of the Company and its subsidiaries. An event of default under the credit agreement could severely impact the Company's short-term liquidity.

Multi-Year Contracts

CADRI has entered into a multi-year contract for the remanufacture of 53 VIA F40 locomotives. Multi-year contracts are complicated and create additional contract related risks for the Company. Under multi-year contracts, the Company is required to meet specific obligations throughout the course of the contract. Failure to meet these obligations subjects the Company to financial penalties. Financial risk can also result if the Company is unable to effectively manage production costs over the term of the contract. Management is continuously improving the Company's cost control measures to minimize the risk of production cost overruns.

Performance Bonds

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.

Dependence Upon Customers

Demand for the Company's products depends primarily on the level of spending by the North American Class 1 railroads. Success is directly related to the strength of the Company's relationships with, and the economic success of, a small number of its larger customers. Should the Company's relationships with any of its major customers become strained, or the profitability of those customers becomes negatively affected, profitability may be impacted. As mentioned in the Outlook section of this MD&A, these customers are all forecasting increased spending in the markets the Company serves. Consequently, there is minimal foreseeable risk of decreased order rates.

Competition

The Company is subject to competition from companies with a broader range of products, greater financial resources and larger marketing capabilities. There can be no assurance the Company will be able to continue to compete successfully with existing competitors or will be able to compete successfully with new competitors. Management is aware of the competitors in its market and sees minimal new threats to the current customer base. While the Company's customers are cost conscious and have access to competitive products and services, Management's continued focus on safety, lean manufacturing, product quality and superior customer service has enabled the Company to successfully retain and grow its customer base.

Product Supply

The Company has been, and may continue to remain, reliant upon third party contractors to provide products and services. The Company is therefore exposed to risks associated with the skills, abilities, timeliness, and quality assurance standards utilized by these third parties. In the event that unsatisfactory services are rendered, the recourse available to the Company may be limited. G&B and Bach-Simpson enter into contracts for the purchase of materials with selected suppliers to ensure a stable supply of raw materials.

Management is not aware of any events that could result in material supply deficiencies in the near future.

Proprietary Rights

The Company has limited registered proprietary rights pertaining to its products. Ability to protect its services or operations from replication by third parties is therefore limited.

Insurance

A defect in the products manufactured by the Company could result in serious personal injury or property damage. Although the Company carries a limited amount of liability insurance, it is not fully insured against such risks, nor are all such risks fully insurable.

Warranty Returns

Consistent with industry practice, the Company allows customers to return products for warranty repair or replacement. Although the Company provides allowances for anticipated returns, and believes that policies have resulted in the establishment of allowances that are adequate, there is no assurance that such product returns will not exceed such allowances in the future, and as a result, may have a material adverse effect on future operating results. Should any of the distributed products prove to be defective, the Company may be required to refund the price of or replace those specific products or all such products previously distributed. Replacement or recall of such products may cause significant expense and adversely affect the reputation of the Company and its products.

Limited Financial Resources

The financial resources of the Company are not significant, particularly in relation to its competitors. The Company's ability to fully exploit available opportunities which it is presented may be dependent upon its ability to obtain additional financing either by debt, equity or other means. There is no guarantee that additional funding would be available.

Fluctuating Exchange Rates

A portion of the Company's revenues and expenses are denominated in U.S. dollars, and are subject to exchange rate fluctuations. Exchange rates are determined by market factors beyond the control of the Company and may vary substantially and have a material adverse impact on the financial results of operations.

**Related Party Transactions**

CADRI paid $33,000 for services provided by the interim President of CADRI to a company owned by the interim President of CADRI. Transaction costs of approximately $710,000, relating to the CAD acquisition and the establishment of the Company's credit facilities, were also paid to this company.

In the normal course of business, CADRI purchased approximately $18,000 of inventory from a company owned by the interim President of CADRI. These inventory purchases were made under terms and conditions similar to those of CADRI's other inventory purchases.

**Critical Accounting Policies and Estimates**

Management prepared the consolidated financial statements in accordance with Canadian general accepted accounting principles. An understanding of the Company's accounting policies is necessary for a complete analysis of results, financial position, liquidity and trends. Refer to Note 1 in the 2007 annual consolidated financial statements for additional information regarding the Company's significant accounting policies.

Financial statements prepared in accordance with Canadian generally accepted accounting principles require management to make estimates and assumptions relating to reported amounts of revenue and expenses, reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Management regularly evaluates the assumptions and estimates that are used in the preparation of the Company's consolidated financial statements.

Estimates and assumptions used by management are based on past experience and other factors deemed reasonable in the circumstances. Since these estimates and assumptions involve varying degrees of judgment and uncertainty, the amounts reported in the financial statements could in the future prove to be inaccurate. Critical estimates include the following:

Stock-Based Compensation

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 options, consideration received, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. The factors affecting stock-based compensation include estimates of when stock options might be exercised and the stock price volatility. While

these estimates can have a material impact on the stock-based compensation expense and hence results of operations, there is no impact on the Company's financial condition.

Long-lived Assets

Estimates are also made related to the useful life of long-lived assets. These estimates are used to determine amortization expense. Estimates of an asset's useful life are based on past experience with similar assets taking into account technological or other changes. If these estimates prove inaccurate, management may have to shorten the anticipated useful life of the asset recorded in the financial statements. This could result in higher amortization expense in future periods or possibly an impairment charge to reflect the write-down in value of the asset.

Other than the normal estimates required in the application of Canadian GAAP, and in the CAD acquisition discussed below, there are no other critical estimates included in the annual consolidated financial statements.

CAD Acquisition

The Company acquired substantially all of the business assets and net working capital of CAD for cash consideration of $22,000,000, excluding transaction costs of $905,317. 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 are not in agreement with the amount of the net working capital shortfall. Accordingly, the Company is seeking recovery of this shortfall from the vendors through the arbitration process specified in the asset purchase agreement. Under the asset purchase agreement, the vendors placed $1.5 million of their sales proceeds into an escrow account which the Company is entitled to claim against for recovery of the net working capital shortfall.

The acquisition of CAD has been accounted for by the purchase method, whereby the net assets acquired are recorded at fair value. The allocation of the purchase price is presently based on the amounts agreed to in the asset purchase agreement. Management is still determining its best estimate of the relative fair values of the identifiable assets acquired and liabilities assumed at the acquisition date, and accordingly, the allocation is expected to change, and the amount of this change could be material.

**Adoption of New 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 1506 - Accounting Changes, provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required to conform to Canadian generally accepted accounting policies, or the change results in more relevant and reliable information.

(b) 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 generally accepted accounting principles.

(b) Section 3251 - Equity, establishes standards for the presentation of equity and changes in equity during 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 and disclosure of financial instruments, namely financial assets, financial liabilities and derivatives.

(e) Section 3865 - Hedges, establishes standards for which hedge accounting is permissible and how it may be applied.

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

Under these new standards, all financial instruments are required to be initially measured at fair value and 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 and due from vendor are classified as "Loans and Receivables". After their initial fair value measurement, they are measured at amortized cost.

(iii) Accounts payable and accrued liabilities, customer deposits, operating loan and long-term debt 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 Statements of Shareholders' Equity.

The adoption of Sections 3855, 3861 and 3965 had no impact on the financial statements for the year ended December 31, 2007.

**Disclosure Controls and Procedures and Internal Control over Financial Reporting**

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company, including its consolidated subsidiaries, is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. In connection with the Canadian Securities Administrators Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Findings". Management, including the CEO and the CFO, has concluded that disclosure controls and procedures provide reasonable assurance that material information is made known to them by others within the Company. Certain weaknesses, however, have been identified. Although management is addressing these weaknesses, it does not expect that the Company's current disclosure controls and procedures will prevent all errors. A control system, no matter how well designed or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

**Internal Control Risks**

The CEO and CFO of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The design of the Company's internal control over financial reporting was assessed as of December 31, 2007. The weaknesses in the Company's internal controls over financial reporting, discussed below, result in more than a remote likelihood that a material misstatement would not be prevented or detected. Management works to mitigate the risk of a material

misstatement in financial reporting. However, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

Specifically, management identified areas of concern in:

1. Segregation of duties

   Segregation of duties and user access control deficiencies have been identified within the Company's accounting and finance departments and its financial information systems. Specifically, certain duties within the accounting and finance departments were not properly segregated due to the small number of individuals employed in these areas. The segregation of duties and access control deficiencies has not resulted in a misstatement to the financial statements. However, these deficiencies may be considered a material weakness resulting in a more-than remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.

   In 2006, management implemented organizational structure and resourcing changes, including the hiring of an experienced Controller at G&B, with a view to enhancing segregation of duties and user access controls and to better match skill sets to roles. Management continued this activity in 2007 by involving additional personnel in the monthly consolidation process.

2. Reliance on spreadsheets

   Historically, accounting personnel relied heavily on the use of accounting spreadsheets to generate its monthly, quarterly, and annual financial reports. Although this reliance has not resulted in a misstatement of the financial statements, it was considered a material weakness in the Company's control environment because of the pervasiveness and significance of the deficiencies. In September 2007, management implemented new computer software to manage the Company's accounting consolidation process, thus eliminating the use of accounting spreadsheets to generate the 2007 third and fourth quarter consolidations. Management will continue to seek opportunities to reduce reliance on other accounting spreadsheet use.

3. Complex and non-routine transactions

   As required, the Company records complex and non-routine transactions. Sometimes, these transactions are extremely technical in nature and require an in-depth understanding of Canadian GAAP and Canadian tax regulations. In prior years, the Company's accounting staff had only a fair and reasonable knowledge of the rules related to Canadian GAAP, tax regulations and reporting. Consequently,

transactions may not have been recorded correctly, potentially resulting in material misstatement of the financial statements of the Company. To address this risk, the Company appointed a new Chief Financial Officer this year who brought extensive experience and background in Canadian generally accepted accounting principles and Canadian tax regulations. The Company also consults with its third party expert advisors as needed in connection with the recording and reporting of complex and non-routine transactions. In addition, quarterly reviews of the financial statements are completed by the Company's auditors, and an annual audit is completed and the financial statements are presented to the Audit Committee for its review and approval.

4. Corporate Governance

In May 2007, Terry McManaman, the Company's President and CEO, was appointed to the position of Chairman of the Board of Directors. As Chairman of the Board, Mr. McManaman will also retain his President and CEO responsibilities. To avoid any potential conflicts of interest, the Company's Corporate Governance Committee mandated that all decisions not in the ordinary course of business must be reviewed with and approved by the Company's Lead Director- Phil Ogden.

Management, including the CEO and the CFO, is currently assessing CADRI's disclosure controls and procedures and internal controls over financial reporting. This assessment will be concluded prior to the end of March 31, 2008, however Management currently expects that there will be a significant number of reportable deficiencies.

### Forward Looking Information

Certain statements in this report may constitute "forward looking information" which involve known and unknown risks, uncertainties and other factors that may cause the actual combined results, performance or achievement of the Company to be materially different from any future results, performance or achievements expressed or implied by such "forward looking statements." Such statements may reflect current beliefs, expectations, estimates and assumptions regarding future events and operating performance and speak only as of the date of this report. Reference should be made to the Company's December 31, 2007 annual consolidated financial statements and the 2007 Annual Information Form for a discussion of risk factors including among others technology, competitive and regulatory changes.

For additional guidance, please review the 2007 Annual Report and continuous disclosure materials available through the Sedar website at www.sedar.com.

# GLOBAL RAILWAY INDUSTRIES LTD.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# FOR THE YEAR ENDED DECEMBER 31, 2007

| DIRECTORS | CORPORATE OFFICE |
|---|---|
| **Terry McManaman, CA**<br>Chairman of the Board<br><br>**Phillip Ogden**[1 2]<br>Lead Director<br>Chair, Compensation Committee<br><br>**John Hagg**[2 3]<br><br>**Dave Horbay, P.Eng**[1]<br>Chair, Corporate Governance Committee<br><br>**James Renner, MBA, P.Eng**[1 3]<br><br>**Tim Sanderson**[2]<br><br>**Garry Zurowski, CA**[3]<br>Chair, Audit Committee<br><br>**<u>OFFICERS</u>**<br><br>**Terry McManaman, CA**<br>President & Chief Executive Officer<br><br>**Brian McMullan, CA**<br>Chief Financial Officer<br><br>**Bill Sturtz, MBA**<br>Chief Operating Officer<br><br>**Greg Peterson, LLB**<br>Corporate Secretary<br><br>**INVESTOR RELATIONS**<br>Gerry Wimmer<br>Investorfile.com<br>416-360-8895<br>1-888-894-8222<br>gwimmer@investorfile.com | **Global Railway Industries Ltd.**<br><br>**Head Office**<br>1255 Brydges Street,<br>P.O. Box 5484, London, Ontario , N6A 4L6<br><br>**Administrative Office (mailing address)**<br>1160 K Pittsford-Victor Road<br>Pittsford, NY, 14534<br>Phone (585) 419-9720<br>Fax (585) 385-6790<br>Email info@globalrailway.com<br>Website: www.globalrailway.com<br><br>**BANKERS**<br>HSBC Bank Canada – Montreal, Quebec<br>BMO – Montreal, Quebec<br>HSBC Bank - Rochester, New York<br><br>**AUDITORS**<br>KPMG LLP<br>London, Ontario<br><br>**LEGAL COUNSEL**<br>Gowling Lafleur Henderson LLP<br>Calgary, Alberta<br><br>Harrison Pensa LLP<br>London, Ontario<br><br>**TRANSFER AGENT**<br>Computershare Trust Company of Canada<br>600, 530 - 8th Avenue S.W.<br>Calgary, Alberta T2P 3S8<br>Phone 1-800-564-6253<br><br>**STOCK EXCHANGE**<br>Toronto Stock Exchange<br>Symbol: GBI |

[1] Member of the Corporate Governance Committee
[2] Member of the Compensation Committee
[3] Member of the Audit Committee