



GLOBAL RAILWAY INDUSTRIES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2010

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 six months ended June 30, 2010. This MD&A has been prepared as of August 12, 2010. Except where otherwise indicated, all financial information is expressed in Canadian dollars. 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 second quarter interim 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"). Where GAAP provided alternative accounting methods, 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. With reliance on reviews and discussions with Management and in light of its roles and responsibilities, the Board of Directors has approved the Company's second quarter interim consolidated financial statements.

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Performance Data

The following represents data for the unaudited three month and six month periods ended June 30, 2010, with unaudited comparative figures for 2009 and 2008:

	Three months			Six months		
	2010	2009	2008	2010	2009	2008
Sales	\$20,005,794	\$ 17,386,252	\$14,615,870	\$38,684,213	\$ 32,063,265	\$30,134,977
Net earnings / (loss) for period	\$ 497,962	\$ (874,554)	\$ 99,788	\$ 586,815	\$ (2,423,703)	\$ 741,386
Net earnings / (loss) per share						
Basic	\$0.03	\$ (0.06)	\$0.01	\$0.04	\$ (0.16)	\$0.05
Diluted	\$0.03	\$ (0.06)	\$0.01	\$0.04	\$ (0.16)	\$0.05
Weighted average number of common shares outstanding						
Basic	15,239,900	15,239,900	15,150,119	15,239,900	15,239,900	15,162,330
Diluted	15,249,387	15,239,900	15,391,190	15,256,708	15,239,900	15,410,834
Total Assets	\$69,385,747	\$ 72,974,543	\$65,852,440	\$69,385,747	\$ 72,974,543	\$65,852,440
Total Long-Term Liabilities *	\$ 4,703,223	\$ 5,627,394	\$22,651,267	\$ 4,703,223	\$ 5,627,394	\$22,651,267

* Excludes debt in the amount of \$13,530,000 originally incurred as long-term which has been classified as a current liability at June 30, 2010 (2009 - \$15,070,000; 2008 - \$nil). (See Liquidity and Capital Resources).

Strategy

Global is a holding company of three railway supply companies: CAD Railway Industries Ltd. ("CADRI"), US based G&B Specialties, Inc. ("G&B"), and Bach-Simpson Corporation ("Bach-Simpson"), which provide sales and/or services, including parts, maintenance and remanufacture of locomotives and diesel engines, to the domestic and international railway industries. In May 2009, the Board of Directors established a Special Committee to conduct a strategic review of all available options to maximize the value of Global to its Shareholders. Such options included the sale of the Company in whole or in parts. The Special Committee continues to make progress in this endeavor.

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Significant Events in the Second Quarter of 2010

Global announced on May 12, 2009, after the Board was reconstituted at the AGM, that the new Board would be exploring all available strategic options to maximize shareholder value. During the second quarter of 2009, the Board established a Special Committee of the Board to consider and evaluate the Company's strategic options. These options included the sale of the Company as a whole or the sale of one or more of the Company's subsidiaries. The mandate of the Special Committee was expanded in the third quarter of 2009 to address issues related to the Company's liquidity and possible financing alternatives as they are closely inter-related with the strategic review process underway.

As previously disclosed, Global has not, since the fourth quarter of 2008, been in compliance with certain loan covenants under its credit agreement. On June 30, 2010, the Company and its Lenders agreed to terms for the Fifth Amendment to the Company's Credit Agreement (The "Amendment"). In accordance with this Amendment, Global undertook to advance with the sale of G&B before July 31, 2010, and the sale of Bach-Simpson before October 31, 2010, and to use a portion of the proceeds of each sale to retire the Company's various credit facilities. Pursuant to the amendment, the Lenders under the credit agreement confirmed that following the repayment of various bank facilities, financial covenants will be revised and amended. Please see "Subsequent Events."

Restructuring fees totaling \$100,000 were charged to the Company by its Lenders for the amendment during the second quarter, which were fully expensed during the second quarter, versus \$110,000 for the three months ended March 31, 2010

During the second quarter of 2010, Management of CADRI successfully delivered three locomotives to VIA Rail Canada ("VIA"), in accordance with the agreed upon delivery schedule, in addition to the initial eight locomotives delivered during 2009. CADRI has now delivered 15 of the 53 locomotives to be remanufactured under the VIA contract. A total of 13 locomotives have received Final Acceptance and two additional locomotives have received Provisional Acceptance from VIA as at June 30, 2010. CADRI continues to implement operational improvements to accelerate the production line, reduce overhead expenses, and optimize delivery processes and schedules.

G&B continues to establish new safety records in 2010 having extended the period to more than five years with no reportable employee lost time incidents. At Bach-Simpson, there were also no reportable accidents in the second quarter of 2010, maintaining a perfect record of safety awareness and an accident free environment started over five years ago. CADRI reported five incidents during the quarter reducing the incident rate by more than 50% versus the prior period, one year earlier.

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Passenger railroads and urban commuter systems continue to be favorably impacted by increased government spending in rail passenger transit. Additionally, the government stimulus spending in Canada and the United States allocates significant amounts for continued infrastructure investment in rail passenger transit. Management anticipates that government stimulus spending will continue to have a positive impact on the Company's revenues. However, the timing and duration of such impact is unknown at this time.

The North American economy is improving and Management is optimistic that the Company's operating results will continue to benefit as the economy improves. This is noted with the number of stored freight cars falling to 23.8 percent of the entire fleet for May 2010, down from 28.7 percent in January, according to the 21st annual "State of Logistics Report" recently released by the Council of Supply Chain Management Professionals. The report goes on to state that "Railroads have experienced enough growth in business to begin rehiring workers and taking freight cars out of storage."

Sales

Through its subsidiaries, the Company's second quarter and June year-to-date revenues were generated primarily from the sale of track switching components and railgear – the Track and Signal segment; event recorders with crash hardened memory modules – the Instrumentation segment; and the remanufacture of locomotives, the repair of rail cars, the sale of rail car parts, and the remanufacture of locomotive and marine engines – the Locomotive segment. Currently more than 50% of Company's revenues are generated from transit customers. Sales originate predominantly in the United States and Canada, with less than 1.5% of revenue being generated from sales in other countries during the second quarter of 2010. Approximately 95% of sales to other countries are insured under export insurance provided by Export Development Canada.

Total Company sales for the three month period ended June 30, 2010 were \$20.0 million, representing an increase of 15.1% compared with the same quarter of 2009. Total Company sales for the six month period ended June 30, 2010 were \$38.7 million, representing an increase of 20.6% compared with the same period of 2009.

The effect of the fluctuating value of the Canadian dollar against the United States dollar unfavorably impacted the Company's 2010 second quarter sales growth. Had the exchange rate remained constant year over year, 2010 second quarter year-over-year sales would have grown by approximately 25.4% (10.3% higher than the actual result). The effect of the fluctuating value of the Canadian dollar against the United States dollar unfavorably impacted the Company's 2010 year-to-date sales growth. Had the exchange rate remained constant year over year, 2010 year-over-year sales would have grown by approximately 32.0% (11.4% higher than the actual result).

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G&B's second quarter 2010 sales (Track and Signal Segment) exceeded forecast by 5.5% and by 2.8% for the six months ended June 30, 2010. As discussed in previous quarterly MD&A's, the North American market continued to be soft. In Canadian currency, G&B's year-to-date 2010 sales were \$10.6 million, off approximately 7.8% compared to 2009 sales, primarily due to the impact of a strengthening Canadian dollar versus the United States dollar, with sales up 3.8% in United States currency.

Bach-Simpson's second quarter 2010 sales (Instrumentation Segment) totaled \$2.5 million and remain unchanged compared to the same period in 2009. For the six months ended June 30, 2010 Bach-Simpson's revenues increased 7.4% to \$5.1 million.

CADRI's (Locomotive Segment) second quarter 2010 revenues increased by 33.4% to \$11.9 million compared to the same period in 2009 due to the scheduled increase of throughput, on the VIA contract. For the six months ended June 30, 2010 revenues increased 45.3% or \$7.1 million to \$22.9 million.

CADRI Management continues to focus its efforts on the VIA project in order to offset the reduction of locomotive maintenance and component parts revenues. CADRI continues to work on increasing the throughput of tank cars as well as environmental and emissions testing sales volumes. As anticipated, CADRI's gross margins increased during the second quarter of 2010 versus both the first quarter of 2010 and the comparable prior year as efficiencies on the VIA contract are demonstrating positive and sustainable improvements.

During the second quarter of 2010, CADRI Management continued to focus on cash flow, reducing overhead cost and increasing operational safety. The results of these efforts continue to optimize cash outflows and increased operational efficiencies. The planned expansion of the locomotive and rail car painting facility was initiated during the second quarter.

Management anticipates that railroads will commence expanding their networks by adding more network capacity as the economy recovers, shippers continue to move their products from trucks to rail, and as commuters increasingly rely on rail transit systems in response to government incentives. Railroads continue to maintain tight control over expenditures to deal with reduced freight volumes/revenues and market softness in the near-term. However, in the mid-term, railroads will continue to seek solutions to decrease fuel consumption and implement core network efficiencies. These initiatives bode well for the Company's locomotive remanufacturing capabilities at CADRI as remanufactured locomotives cost approximately 60% less than new locomotives, provide an estimated 20% fuel efficiency, are more reliable in the field, have more tractive effort, and emit 80% less pollutants into the environment.

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Fluctuations in the value of the Canadian dollar against the United States dollar continue to affect the Company's results when the United States dollar denominated sales and expenses are translated into Canadian dollars. A strengthening United States dollar has the effect of increasing the Canadian dollar equivalent of the Company's United States dollar denominated sales and expenses. It also increases overall net income because there are more sales than expenses denominated in United States dollars. During the second quarter of 2010, approximately 53% of the Company's sales were transacted in United States dollars. During the first six months of 2010, approximately 58% of the Company's sales were transacted in United States dollars. The 2010 United States dollar denominated sales were lower than 2009 due primarily to a sizable increase in CADRI's Canadian dollar denominated sales originating from the VIA contract. The second quarter 2010 split between Canadian and United States denominated sales is in line with Management's expectations for 2010.

Gross Margins

Second quarter 2010 gross margins were 23.7%, compared with 12.1% for the same period in 2009.

During the second quarter of 2010, CADRI's gross margin improved materially versus the comparable period in 2009. CADRI Management continues to aggressively market the full suite of products and services to stimulate the recovery of business lost during the economic slowdown. Additionally, CADRI Management has implemented a series of measures directed at reducing the VIA contract bill of materials input costs, increasing labour productivity, decreasing consumables and improving the final delivery acceptance process, all in an effort to improve margins and profitability. The VIA contract gross margins continue to meet Management's expectations and follow plan now that the VIA contract startup costs have been incurred and learning curve benefits are realized.

G&B's gross margins for the second quarter of 2010 softened modestly compared to 2009 notwithstanding G&B's continued efforts to reduce expenses, carefully monitor labor productivity and safety to cap expenditures.

Bach Simpson's gross margin for the second quarter of 2010 improved modestly over first quarter levels aided by improved product mix with greater proportion of higher margin products shipped towards the end of the quarter. Furthermore, second quarter margin remained weaker than second quarter of 2009 with carry over of first quarter surplus headcount, delayed rollout of higher margin engineering products and shipment of lower margin products.

During the six months ended June 30, 2010, the Company recorded the benefit of anticipated scientific research and experimental development ("SRED") claims in the amount of \$204,000 including \$99,000 for the quarter ended June 30, 2010. For the six

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months ended June 30, 2009 the Company recorded SRED benefits of \$167,000 including \$117,000 for the quarter ended June 30, 2009. The value of future claims will fluctuate depending on the research and development activities undertaken in any given period. The Company's SRED claims are subject to review and acceptance by both Federal and Provincial income tax authorities.

Operating Expenses

Salaries and General and Administrative expenses for the three months ended June 30, 2010 were 15.4% of sales, compared with 15.7% for the same period in 2009. Salaries and General and Administrative expenses for the six months ended June 30, 2010 were 14.6% of sales, compared with 17.7% for the same period in 2009.

Salary expenses for the second quarter of 2010 were \$125,000 greater than for the same period in 2009. Salary expenses for the six months ended June 30, 2010 were \$5,000 greater than for the same period in 2009. Merit increases and staffing increases (primarily in the portion of the locomotive segment which services transit customers), offset by headcount reductions at corporate and reduced foreign exchange on US salaries generally accounted for the increases.

As a result of restructuring initiatives, corporate salary expenses for the first six months of 2010 were \$505,000 lower than the same period in 2009. Corporate savings were achieved from the planned reductions of senior management and the transfer of authority to the subsidiaries.

General and Administrative expenses for the second quarter of 2010 were \$230,000 higher than for the same period in 2009. This increase is primarily related to corporate expenses with business unit expenditures unchanged. Professional fees related to auditing, reviews, tax, planning, and legal counsel were increased \$56,000 versus the second quarter of 2009. Second quarter 2010 Board of Director fees were \$17,000 lower than the prior year period due to the reduced number of board members and a reduction to annual stipends and meeting fees. Cumulative savings were reduced by \$100,000 of fees charged to the Company by its Lenders related to the Credit Agreement amendments and \$64,000 in professional fees necessary to met the Lenders' requirement for monthly financial monitoring of the Company's operations. Additionally, the Company incurred \$346,000 in Special Committee fees during the second quarter of 2010, while no similar fees were incurred during the second quarter of 2009.

During the six months ended June 30, 2010, General and Administrative expenses were \$22,000 lower than for the same period in 2009. Continued efforts at CADRI resulted in reduced General and Administrative expenses of \$378,000 during the first six months of 2010. Professional fees related to auditing, reviews, tax, planning, and legal counsel were \$26,000 lower than the first half of 2009. During the first six months of 2010,

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Board of Director fees were \$47,000 lower than the prior year period due to the reduced number of board members and a reduction to annual stipend and meeting fees. Offsetting savings were \$210,000 of fees charged to the Company by its Lenders related to the Credit Agreement amendments as well as \$145,000 in professional fees necessary to meet the Lenders' requirement for monthly financial monitoring of the Company's operations. Additionally, the Company incurred \$412,000 in Special Committee fees during the first six months of 2010, while no similar fees were incurred during the first six months of 2009.

Interest Income/Expense

During the three month period ended June 30, 2010, net interest paid was \$333,000 compared with net interest paid of \$230,000 in the prior year period. The increase in the 2010 second quarter interest expense is due to increased borrowing costs under the Company's amended operating facility.

During the six months ended June 30, 2010, net interest paid was \$824,000 compared with net interest expense of \$495,000 in the prior year period. The increase in the 2010 net interest expense is due to increased borrowing costs under the Company's amended operating facility, and \$179,000 in accelerated amortization of costs associated with the establishment of the Company's original Credit Facility.

Foreign Exchange

The Company recorded a foreign exchange loss of \$193,000 during the second quarter of 2010, compared with a foreign exchange loss of \$20,000 during the same period in 2009. During the first six months of 2010, the Company recorded a foreign exchange gain of \$211,000, compared with a foreign exchange gain of \$126,000 during the same period in 2009. The foreign exchange loss during the second quarter primarily relates to the weakening of the Canadian dollar versus the United States dollar and the impact that this had on the translation of the Company's US denominated intercompany payables. For the six months ended June 2010 versus six months ended June 2009 the Canadian dollar has strengthened closer to parity.

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Income Tax

The following is a reconciliation of the expected and actual tax provisions for the second quarter of 2010 compared to the same period of 2009:

	2010		2009	
	6 months	3 months	6 months	3 months
Earnings / (Loss) before income taxes	\$ 1,310,856	\$ 1,027,324	\$ (2,943,642)	(1,001,429)
Expected income tax rate	29.0%	29.0%	31.0%	31.0%
Computed expected income tax expense / (recovery)	380,148	297,924	(912,529)	(310,443)
Difference resulting from:				
Non-deductible items	14,048	50,126	21,054	(4,945)
Non-deductible goodwill impairment	-	-	-	-
U.S. state taxes	60,246	35,170	59,752	24,477
Withholding taxes on dividends	-	-	-	-
Rate differences	172,824	63,212	361,639	242,519
Other	96,774	82,929	(49,855)	(78,483)
Provision for income taxes	\$ 724,041	\$ 529,361	\$ (519,939)	\$ (126,875)

The Company's tax expense has been significantly impacted by rate differences on the Company's temporary differences. The accounting value of these temporary differences has been determined using the tax rate expected to be in effect when the benefit of these temporary differences is realized. These future rates are lower than the 2010 expected tax rate.

Net Earnings (Loss)

Net earnings for the second quarter of 2010 were \$498,000 compared with a net loss of \$875,000 during the same period in 2009. The net earnings for the first six months were \$587,000 compared to a net loss of \$2.4 million one year earlier, and were in line with Management's expectations given volume growth, improvements in gross margins, and cost controls implemented.

Outlook

Along with all other industries in the United States, railroads have suffered during the economic downturn. Freight rail is a "derived demand" industry; demand for the rail service is linked to the demand for the products that the railroads haul. Rail traffic, therefore, acts as a solid barometer of the overall health of the economy.

Since 2004, a number of factors have led to an increase in rail freight volume in the

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United States. This has included rising fuel costs leading to an increased demand for rail, since railroads are on an average four times more fuel-efficient than trucks; a surge in United States imports and record United States agricultural exports boosting rail shipments to and from ports; a rise in natural gas prices causing power plants to burn more coal to generate electricity, and most coal is shipped by rail and lastly railroad investments in capacity, innovations and use of technology led to service improvements and enhanced reliability.

With the economy now growing, the fortunes of the railroad industry are also on the mend. The overall sentiment, based on latest available weekly data with respect to railroads is clearly improving, with total traffic for the 17th week of 2010 increasing 15.0%, preceded by traffic increases of 14.8% year-over-year in the 16th week, 16.1% in the 15th week and 17.2% in the 14th week. The volumes continue to grow steadily due to a pick-up in end market demand. Moreover, structural cost cuts during the downturn are expected to help railroads generate higher margins.

As the United States economy recovers, manufacturing production picks up and consumers begin spending again, industry revenue should return to historical growth patterns.

Financial Results ('000's)

	Q2 '10	Q1 '10	Q4 '09	Q3 '09	Q2 '09	Q1 '09	Q4 '08	Q3 '08
Sales	\$ 20,006	\$ 18,678	\$ 16,946	\$ 17,386	\$ 14,677	\$ 16,564	\$ 15,069	\$ 14,616
Net earnings / (loss)	\$ 498	\$ 89	\$ (532)	\$ (875)	\$ (1,549)	\$ (2,959)	\$ 542	\$ 100
Earnings / (loss) per share - Basic	0.03	0.01	-0.26	-0.03	-0.06	-0.10	-0.19	0.04
Earnings / (loss) per share - Diluted	0.03	0.01	-0.26	-0.03	-0.06	-0.10	-0.19	0.04

Liquidity and Capital Resources

In November 2007, the Company entered into a Credit Agreement with two Canadian Chartered Banks, which provided loan facilities aggregating \$32.0 million. In December 2008, the borrowing rates and certain compliance covenants within the Company's Credit Agreement were amended. As previously disclosed, Global has not, since the fourth quarter of 2008, been in compliance with certain loan covenants under its Credit Agreement. On June 30, 2010, Management and the Lenders agreed to terms for the Fifth Amendment to the Company's Credit Agreement. In accordance with this Amendment, Global undertook to advance with the sale of G&B before July 31, 2010, the sale of Bach-Simpson before October 31, 2010 with the proceeds on sale of each to be used to retire various bank facilities, at which time the Company's Credit Facilities will be permanently cancelled. Additionally, the Lenders confirmed that following the repayment

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of various bank facilities, financial covenants will be revised and amended. Please see "Subsequent Events."

In Management's judgment, these efforts and the current plan are expected to be successful in addressing the Company's future cash resource requirements and resolving existing covenants.

As at June 30, 2010, cash on hand was \$364,000 compared with \$2.0 million at December 31, 2009. In the second quarter of 2010, the Company used \$2.2 million of cash to fund operations, reduce supplier payables, reduce customer deposits and fund the VIA contract production. The second quarter \$2.2 million operating cash shortfall compared with an operating cash shortfall of \$2.3 million in the same period of 2009. During the second quarter of 2010, the Company used \$80,000 of cash for capital investments, compared with \$138,000 in the second quarter of 2009. The Company financed the second quarter capital expenditures with operating cash.

For the six months ended June 30, 2010, cash from operations was \$1.2 million versus a deficit of \$5.7 million for the six months ended June 30, 2009. The significant improvement resulted from extensive efforts to improve billing processes and realize reductions in working capital allocated to VIA contract production. Additionally, the Company used \$194,000 of cash for capital investments during the six months ended June 30, 2010, compared with \$463,000 in 2009.

As at June 30, 2010, the total drawn under the credit facilities was \$23.4 million, including a \$1.0 million financial guarantee to VIA. The undrawn portion of the Company's available credit facility as at June 30, 2010 was \$3.2 million. The Company's term loan is repayable in quarterly principal installments of \$770,000, with the last installment paid on April 1, 2010. The next required principal repayment was due on July 1, 2010 and was paid as scheduled.

As at June 30, 2010 the Company did not have any off-balance sheet financial arrangements.

Capital Expenditures

Management continues to approve only core capital expenditures with rapid payback periods or safety related projects. During the second quarter of 2010, CADRI implemented a new accounting system in parallel with the existing accounting system. Management has continued testing the system, training employees and customizing financial reports during the second quarter. Final and stand alone deployment for the new system is scheduled during the third quarter after the parallel testing concludes and assessments are concluded. Management remains confident that this new accounting system will enable CADRI to address various system and control weaknesses.

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During the second quarter of 2010, the Company's capital expenditures totalled \$80,000. Capital expenditures included manufacturing equipment, leaseholds and building improvements, as well as furnishings and office equipment.

Funding for capital expenditures was derived from internal cash flow. As at June 30, 2010, the Company had outstanding commitments of \$25,000 for additional capital expenditures for the purchase and installation of a new air compressor system required for CADRI's paint booth project.

Contractual Obligations

The Company has equipment, office and factory lease commitments at Global, G&B, CADRI and Bach-Simpson. These commitments total approximately \$64,000 in 2010; \$231,000 in 2011; \$213,000 in 2012; \$201,000 in 2013; and \$185,000 in 2014. The Company has entered into fixed price purchase contracts with remaining commitments amounting to approximately \$22.4 million, primarily to acquire materials required to complete the VIA contract. These purchase contracts generally contain clauses that allow the Company to renegotiate the purchase commitments if the VIA contract is materially changed or cancelled. Included in the above are purchase contracts totaling \$6.1 million with a company owned by the President and CEO of Global – see Related Party Transactions.

In December 2007, CADRI was awarded a \$101.5 million contract to remanufacture VIA's fleet of 53 F40 locomotives over a five year period. This contract award positions the Company as the largest re-manufacturer of locomotives in Canada and as a major competitor in North America. The VIA fleet renewal program will see the full remanufacturing of their F40 locomotives, including several technological upgrades, and is expected to be completed by the end of 2012. The contract has a progress billing structure – with a 10% holdback on provisional acceptance of the remanufactured unit, which reduces to a 5% holdback on final acceptance of the unit. CADRI must provide annual performance guarantees equal to the greater of i) \$5.0 million, and ii) 50% of VIA's annual spending under this contract. The requirement to provide annual performance guarantees terminates when the warranty applicable to the last delivered production unit expires. CADRI is required to indemnify VIA for all claims, damages, and liabilities. VIA can cancel the contract for non-performance or CADRI bankruptcy. VIA can terminate the contract at any time; a standard clause in government contracts. The ownership of any new processes, patents, etc., developed by CADRI while performing VIA services accrues to VIA. The contract calls for a two year parts and labour warranty on refurbished units and a one year warranty on repairs.

The Company maintains a liability on its interim consolidated balance sheets in the amount of approximately \$3.0 million, which represents prepayments received in respect

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of the remanufacture of locomotives. Approximately \$2.6 million of these prepayments are expected to be drawn down during the next twelve months. The entire balance will be drawn down by the end of 2012. The Company has secured the prepayments with a \$1.0 million financial guarantee, which is renewable annually.

Goodwill Impairment

CICA Handbook section 3064 requires goodwill to be tested for impairment on an annual basis or more frequently if events or circumstances indicate that the carrying amount may not be recoverable. At December 31, 2009, Management completed its annual impairment test whereby the estimated fair value of each reporting segment was compared to the segment's book value. The fair values of G&B and Bach-Simpson were greater than their respective carrying values, indicating goodwill was not impaired for these two business segments. The estimated fair value for CADRI was lower than its carrying value, indicating a potential impairment, which required the Company to perform an additional analysis.

At December 31, 2009, based on additional analysis, it was determined that a non-cash write-down of \$2.6 million (\$2.1 million net of a future tax benefit) was required for goodwill recorded as part of the acquisition of CADRI. The contributing factor to the impairment of goodwill was CADRI's continuing operating losses.

During the second quarter of 2010, no events or circumstances occurred that would have required Management to evaluate goodwill impairment at June 30, 2010.

Share Capital

At June 30, 2010, the Company had 15,239,900 common shares outstanding, unchanged from the prior year. During the three months ended June 30, 2010, no stock options were exercised, 30,000 options expired, no options were cancelled, and no additional options were granted in accordance with the Company's Stock Option Plan. If all of the outstanding options were exercised, the Company would have 16,331,842 shares outstanding.

Related Party Transactions

During the second quarter of 2010, the Company paid \$76,000 for management services provided by a company owned by the new President and CEO of Global, compared with \$104,000 paid during the same period in 2009 (Please see "Business Risks – Key Personnel"). During the first six months of 2010, CADRI paid \$155,000 for management services provided by a company owned by the President of CADRI, compared with \$187,000 paid during the same period in 2009. In the normal course of business, CADRI purchased approximately US\$2.0 million of inventory from a company owned by the

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President of CADRI during the first six months ended June 30, 2010, compared with US\$1.2 million during the same period of 2009. These inventory purchases were made under terms and conditions comparable to those of CADRI's other inventory purchases, and will be ongoing, representing future purchase commitments of approximately \$6.1 million as at June 30, 2010.

Environmental Liability

In June of 2008, CADRI exercised an option to purchase the land and building it had previously been leasing. It was known that costs would be incurred to remediate environmental contaminants carried over from the property's prior use as a foundry. A third party evaluator has determined that this environmental liability approximates \$1.3 million. These future environmental remediation costs were factored into the purchase price. Since it is likely that the CADRI will sustain these environmental remediation costs, an environmental liability reserve in the amount of \$1.3 million has been recorded with an offsetting increase to the carrying value of the land and building. As environmental remediation costs are incurred, they will be charged against the environmental liability reserve. In 2010, the Company has charged \$nil against the environmental reserve (year ended December 31, 2009 - \$2,040).

Subsequent Events

In June 2009, the Company's Board of Directors established a Special Committee to assess all strategic alternatives available to the Company. The Special Committee engaged an independent financial advisor and retained independent legal counsel to assist with the process. In the third quarter of 2009, the Special Committee's mandate was expanded to include debt restructuring in order to manage the Company's liquidity situation. Over the past twelve months, the Special Committee, with the advice of its financial advisor, considered all alternatives to maximize shareholder value. As part of this process, the financial advisor conducted a very broad auction to identify potential purchasers of all or part of the Company. This process resulted in the July 14, 2010 signing of an agreement to sell all of the outstanding shares of GBI USA Holdings, Inc., the parent company of G&B, and substantially all of the business and assets of Bach-Simpson to Wabtec Corporation for approximately \$48.0 million, subject to working capital adjustments. The Special Committee and the Board of Directors unanimously determined these sale transactions to be in the best interest of the Company and its Shareholders. The G&B sale was closed on July 28, 2010 and the closing of the Bach-Simpson sale is expected to be completed prior to October 31, 2010.

After estimated transaction costs of approximately \$2.3 million, the Company expects to record an estimated accounting gain on the combined sale of G&B and Bach-Simpson in the amount of approximately \$24.5 million.

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Approximately 15% of the purchase price for G&B and Bach-Simpson will be held in escrow for potential indemnification claims. The escrow period extends between six months and three years from the transaction closing dates, depending upon the nature of the indemnity. After the escrowed amounts, working capital adjustments, estimated transaction costs, and payment of contractual severance obligations owing to Management (Please see "Business Risks – Key Personnel"), Global expects to receive net cash proceeds of approximately \$26.5 million on the closing of the sale of G&B and approximately \$9.4 million on the closing of the Bach-Simpson sale.

Approximately \$15.8 million of the net proceeds from the sale of G&B was used to fully retire the Company's term facility, and an additional \$3.4 million was used to reduce the outstanding principal of the Company's operating facility, including guarantees, down to \$5.0 million. Net proceeds from the sale of Bach-Simpson will be used to retire the Company's operating facility, at which time the Company's Credit Facilities will be permanently cancelled.

The results of G&B and Bach-Simpson included in continuing operations are as follows:

The Company's Interim Consolidated Statements of Comprehensive Income (Loss) for the periods ended June 30, include the following information related to the operations of G&B and Bach-Simpson:

	Three months		Six months	
	2010	2009	2010	2009
Sales	\$ 8,079,178	\$ 8,374,598	\$ 15,759,639	\$ 16,304,959
Direct cost of sales, salaries and general and administrative expenses	6,030,404	6,043,565	11,966,024	11,605,585
Earnings before undernoted items	2,048,774	2,331,033	3,793,615	4,699,374
Amortization	18,197	21,091	36,144	42,505
Interest, net	333,415	230,078	824,185	494,841
Other, net	(65,613)	196,125	34,029	163,212
Earnings before income taxes	1,762,775	1,883,739	2,899,257	3,998,816
Income tax provision	404,525	614,688	822,993	1,289,653
Net earnings	\$ 1,358,250	\$ 1,269,051	\$ 2,076,264	\$ 2,709,163

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The Company's Interim Consolidated Statements of Cash Flows for the periods ended June 30 include the following information related to the operations of G&B and Bach-Simpson:

	Three months		Six months	
	2010	2009	2010	2009
Net earnings	\$ 1,358,250	\$ 1,269,051	\$ 2,076,264	\$ 2,709,163
Amortization	114,664	142,305	255,873	231,362
Other	(57,649)	(141,120)	(67,433)	(63,433)
Change in non-cash working capital	(1,308,073)	(493,769)	(2,302,518)	(2,197,443)
Cash provided by (used in) operating activities	107,192	776,467	(37,814)	679,649
Investing activities	(15,473)	(124,159)	(57,079)	(160,877)
Financing activities	(216,371)	(391,285)	(1,593,772)	185,220
Increase (decrease) in cash	\$ (124,652)	\$ 261,023	\$ (1,688,665)	\$ 703,992

The Company's Interim Consolidated Balance Sheet includes the following information related to the operations of G&B and Bach-Simpson:

	June 30, 2010
Current assets	\$ 13,123,731
Long-term assets	12,781,960
Total assets	25,905,691
Current liabilities	4,592,546
Long-term liabilities	1,512,194
Total liabilities	\$ 6,104,740
Net working capital	\$ 8,531,185

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Proforma financial statements giving effect to the exclusion of G&B and Bach-Simpson are as follows:

The Company's Interim Proforma Consolidated Statements of Comprehensive Income (Loss) excluding the operations of G&B and Bach-Simpson and also excluding the impact of the net proceeds from sale and repayment of all amounts owing under the Company's credit facilities are as follows:

	Three months		Six months	
	2010	2009	2010	2009
Sales	\$ 11,926,616	\$ 9,011,654	\$ 22,924,574	\$ 15,758,306
Direct cost of sales, salaries and general and administrative expenses	12,320,063	11,979,300	24,198,205	22,575,705
Loss before undernoted items	(393,447)	(2,967,646)	(1,273,631)	(6,817,399)
Amortization	59,334	70,335	126,002	138,754
Other, net	282,670	(152,813)	188,768	(13,695)
Loss before income taxes	(735,451)	(2,885,168)	(1,588,401)	(6,942,458)
Income tax provision (recovery)	124,837	(741,563)	(98,952)	(1,809,592)
Net loss	\$ (860,288)	\$ (2,143,605)	\$ (1,489,449)	\$ (5,132,866)

The Company's Interim Proforma Consolidated Statements of Cash Flows excluding the operations of G&B and Bach-Simpson for the periods ended June 30 and also excluding the impact of the net proceeds from sale and repayment of all amounts owing under the Company's credit facilities are as follows:

	Three months		Six months	
	2010	2009	2010	2009
Net loss	\$ (860,288)	\$ (2,143,605)	\$ (1,489,449)	\$ (5,132,866)
Depreciation and amortization	278,444	242,620	630,185	619,076
Other	(105,358)	(597,185)	(134,701)	(1,464,877)
Change in non-cash working capital	(1,575,704)	(529,547)	2,184,783	(415,012)
Cash provided by (used in) operating activities	(2,262,906)	(3,027,717)	1,190,818	(6,393,679)
Investing activities	(64,147)	(14,271)	(137,077)	1,233,312
Financing activities	(287,969)	2,191,285	(1,007,172)	4,114,780
Increase (decrease) in cash	\$ (2,615,022)	\$ (850,703)	\$ 46,569	\$ (1,045,587)

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The Company's Interim Proforma Consolidated Balance Sheet excluding the operations of G&B and Bach-Simpson and also including the impact, as at June 30, 2010, of the net proceeds from sale and repayment of all amounts owing under the Company's credit facilities, is as follows:

	June 30, 2010
Current assets	\$ 36,311,708
Long-term assets	30,174,348
Total assets	66,486,056
Current liabilities	10,579,148
Long-term liabilities	3,191,029
Total liabilities	\$ 13,770,177
Net working capital	\$ 25,732,560

Business Risks

The Company's primary business risks are listed below:

Liquidity

At June 30, 2010, the Company was not in compliance with various covenants. However, on June 30, 2010, the Lenders confirmed their intention to revise and amend covenants after the partial proceeds on sale of G&B and Bach are used to fully retire various bank facilities. In Management's judgment, these efforts and the current plan will be successful in addressing the Company's future cash resource requirements and resolving existing covenants.

In view of the foregoing, Management expects that these efforts should be successful in addressing the Company's future cash resource requirements. The Company is currently in discussions with one of its Lenders, as well as other lenders, regarding the establishment of new credit facilities.

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Key Personnel

The Company's senior management team is comprised of its Chairman, President and Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and the Presidents of Bach and G&B. 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 unanticipated 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, results of operations or implementation of the Strategic Review recommendations. Additionally, the departure of the Company's President and CEO or CFO is an event of default under the Company's Credit Agreement. Because the senior management team has many years of experience within the industry, or their individual fields of expertise, it could 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 Board of Directors approved a corporate restructuring plan, to be implemented upon the sale of one or more of the Company's subsidiaries, which ensures appropriate Management personnel will be retained to guide the Company through the final implementation of the Board of Directors' approved decisions resulting from the Strategic Review. Additionally, the Company has employment and non-competition agreements in place with each member of its senior management team. The Company's Lenders have been kept apprised of and concur with the Restructuring Plan as well as changes to management announced on July 28, 2010.

On July 28, 2010, Mr. Fausto Levy succeeded Mr. Terry McManaman as President and CEO of Global Railways. Additionally, Mr. Tom Dea, Lead Director succeeded Mr. Terry McManaman as Chairman of the Board.

Concurrently, Mr. Ross Corcoran succeeded Mr. Brian McMullan as Chief Financial Officer. Mr. McMullan has agreed to stay on with the Company on an interim basis to assist with the transition.

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Business Strategy

The Company's growth through acquisition strategy was suspended given the Company's financial condition and the pending outcome of the Strategic Review.

Credit Facilities

The Company has entered into a \$34.1 million credit agreement with two Canadian Chartered Banks. The credit facilities are guaranteed by the Company and each of its wholly owned subsidiaries and are secured by general security interests over substantially all of the assets of the Company and its subsidiaries. The Company is not in compliance with certain covenants under the Credit Agreement. However, the Lenders agreed June 30, 2010 to revise and amend covenants after the partial proceeds on sale for G&B and Bach are used to fully retire various bank facilities. Management's expects that these efforts and the current plan should be successful in addressing the Company's cash requirements and resolving existing covenants. Please see "Subsequent Events".

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 the multi-year contract, 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 and material costs during the term of the contract. Management is continuously improving the Company's cost control measures to minimize the risk of unplanned production costs. Certain long-term contracts with government controlled entities, such as VIA; provide such entities with the right to terminate without cause. Such termination could result in significant negative impact to the Company, notwithstanding that Global has taken steps to mitigate the impact through its contracts with suppliers.

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. There is a risk that the bonding companies may choose not to renew the performance bonds.

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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 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.

Dependence Upon Customers

Demand for the Company's products depends primarily on the level of spending by the North American Class 1 freight railroads, passenger railroads and commuter systems. 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. On the other hand, passenger railroads and commuter systems are favourably impacted by the current market conditions because of increased government investment in rail passenger transit. Approximately 56% of the Company's six month revenues are generated from transit customers, compared to 44% from freight carriers. This compared to 39% transit and 61% in the comparable period one year earlier.

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. CADRI, 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.

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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 its 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 limited in relation to its competitors. The Company's ability to fully exploit available opportunities 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. As an example, given the existing conditions of the banking and credit markets, the Company's future plans regarding new bids for large contracts might be at risk as most of these contracts require large initial investments in working capital.

Fluctuating Exchange Rates

A portion of the Company's revenues and expenses are transacted 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. Due to the constraints placed on Global by its Lenders, further access to hedge contracts to protect against currency fluctuations is not available.

Implementation of accounting system at CADRI

The implementation of a new accounting system at CADRI commenced during the quarter ended June 30, 2010 and is expected to address many of the weaknesses of the existing systems and controls. This implementation requires time and manpower

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resources, thereby introducing some inherent risk in CADRI operations until such time that the accounting system is fully implemented. The new accounting system was used in parallel during the second quarter of 2010, along with employee training, system testing and report customization are continuing. Final and stand alone deployment for the new system is scheduled during the third quarter after the parallel testing concludes and assessments are concluded.

Liquidity of Small Cap Stocks

The current economic uncertainty and financial market volatility make it challenging at times for investors to liquidate their investment in small cap companies. Generally, Global investors trade a minimal number of shares daily. In 2009, an average of about 10,500 Global shares was traded daily representing 0.1% of the Company's public float of outstanding common shares.

Critical Accounting Policies and Estimates

Management prepared the consolidated financial statements in accordance with Canadian GAAP. An understanding of the Company's accounting policies is necessary for a complete analysis of results, financial position, liquidity and trends. Refer to Note 2 in the 2010 second quarter interim consolidated financial statements for additional information regarding the Company's significant accounting policies.

Financial statements prepared in accordance with Canadian GAAP 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. These estimates and assumptions are based on Management's best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which Management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets and declines in customer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods. Critical estimates include the following:

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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 the fair value of the options at the grant date which is 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. These estimates can have a material impact on the stock-based compensation expense and hence results of operations. However, since these expenses do not involve cash, 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 technology 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.

Long-term Contracts

Revenues for engineering service contracts, production contracts, and longer term remanufacturing contracts are recognized under the percentage of completion ("POC") method. Under the POC method, revenue is recognized based on the costs incurred to date as a percentage of the total estimated costs or estimated labour hours for each unit of production. If circumstances change the original estimates of revenues, costs, or extent of progress toward completion, then revisions to the estimates are made. These revisions may result in increases or decreases in estimated revenues or costs, and such revisions are reflected in income in the period in which the circumstances that give rise to the revision become known to Management. The Company also provides for the estimated cost of product warranties at the time of revenue recognition.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the net assets acquired, based on their fair values. Goodwill is allocated as of the date of the business combination. Goodwill is not amortized but is tested for impairment annually or more frequently if

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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 using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item on the Interim Consolidated Statements of Comprehensive Income (Loss) before extraordinary and discontinued operations.

Other than the normal estimates required in the application of Canadian GAAP, there are no other critical estimates included in the first quarter interim consolidated financial statements.

Future Accounting Policies

New accounting standards issued by the Canadian Institute of Chartered Accountants, were as follows:

- (a) Section 1582, Business Combinations, provides guidance for the accounting of a business combination which is the Canadian equivalent to International Financial Reporting Standard ("IFRS") 3. The Company will adopt the comparable IFRS to this new standard in the first quarter of 2011 as part of its transition to IFRS.
- (b) Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests, provide guidance for the preparation of consolidated financial statements and the accounting for non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company will adopt the comparable IFRS to this new standard in the first quarter of 2011 as part of its transition to IFRS.
- (c) In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using

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estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption. The Company will adopt the comparable IFRS to this new standard in the first quarter of 2011 as part of its transition to IFRS.

Transition to International Financial Reporting Standards

For fiscal years beginning on or after January 1, 2011, Canadian public companies will be required to prepare their financial statements in accordance with IFRS. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies that must be evaluated. IFRS will also require more disclosures than Canadian GAAP. The Company will issue its financial statements in the first quarter of 2011 in accordance with IFRS including comparative data for 2010.

The Company's IFRS conversion project plan is comprised of three main phases:

- initial diagnostic assessment
- design
- implementation

The Company has completed the initial diagnostic assessment phase of the plan and has identified and documented the key accounting and disclosure differences between Canadian GAAP and IFRS.

The detailed assessment of the differences is substantially complete and the design and development of business process changes and accounting policy selections to meet the requirements of IFRS has commenced during the second quarter of 2010 and is expected to be done by the end of the third quarter 2010.

Based on this assessment, the financial statement issues and related accounts that will be impacted the most by the implementation of IFRS are impairments, property plant & equipment, provisions, revenue recognition, stock based compensation, business combinations, future income taxes, intangible assets and goodwill. The Company is in the process of preparing the January 1, 2010 opening financial statements under IFRS and has not yet seen any material differences compared to the Canadian GAAP financial statements based on the analysis completed to date. Goodwill and long-lived asset impairment differences for the opening balance under IFRS are still yet to be determined.

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The Company has reviewed accounting policy alternatives under IFRS, including certain exemptions and elections available on transition under IFRS 1, but has not yet concluded on which IFRS 1 elections the Company expects to make on transition to IFRS. Any adjustments required on transition to IFRS will be made retrospectively against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time. Moreover, until the adoption date is finalized and the Company has prepared a full set of annual financial statements under IFRS, the Company will not be able to determine or precisely quantify all of the impacts that will result from converting to IFRS. The Canadian GAAP and IFRS, standard setting bodies have significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS and their impact on the Company's consolidated financial statements in future years.

The project philosophy is to align the Company's IFRS accounting policy choices with current internal controls over financial reporting, disclosure controls and procedures and accounting practices and policies, where possible, to minimize the impact of any changes to the business. Business processes, including controls, are being assessed and redesigned, as needed, as the project progresses. Management does not yet foresee any material changes coming from this transition. In regards to internal controls over financial reporting ("ICOFR"), the Company will be determining what additional changes to ICOFR will be required to deal with the accounting policies adopted for IFRS. This process will be ongoing through 2010 to ensure all accounting polices adopted include appropriate additional controls and procedures for future IFRS reporting requirements.

The Company will also ensure that its key stakeholders are informed about the anticipated effects of the IFRS transition. Regular reporting of the progress on the IFRS conversion project has been, and will continue to be provided by Management to the Audit Committee of the Board of Directors and other important stakeholders.

Disclosure Controls and Procedures

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 National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Findings", the Company's Management, with the participation of the CEO and CFO, previously evaluated the effectiveness of the Company's disclosure controls and procedures, as disclosed in the Company's 2009 Annual MD&A, in which it concluded that such disclosure controls and procedures were not effective, based on such evaluation. Management has carried out procedures which it believes has enabled it to mitigate the risk of a material misstatement in financial reporting. However, there can be no

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assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

Internal Controls over Financial Reporting

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 Company's Management, with the participation of the CEO and CFO, previously evaluated the effectiveness of its internal control over financial reporting using the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission, as disclosed in the Company's 2009 Annual MD&A. 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 has carried out procedures which it believes has enabled it to mitigate the risk of a material misstatement in financial reporting. .

Previously, Management had 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 limited number of individuals employed in these areas. 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.

Management continues to review accounting processes with a view to reduce segregation of duties and access control deficiencies. However, future mitigation is limited by the relatively small number of personnel within the Company's accounting and finance departments.

2. 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. The Company's Chief Financial Officer and internal advisors have extensive experience

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and background in Canadian GAAP and Canadian tax regulations. However, due to the complexity of Canadian GAAP, it remains possible that transactions may not have been recorded correctly, potentially resulting in material misstatement of the financial statements of the Company. To mitigate this risk, the Company's CFO consults with 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. The financial statements are also presented to the Audit Committee for its review and approval. On July 28, 2010, a new CFO succeeded the incumbent who has agreed to stay on with the Company on an interim basis during the transition.

3. Corporate Governance

In July 2010, Mr. Fausto Levy succeeded Mr. Terry McManaman, as the Company's President and CEO. Additionally, Mr. Thomas Dea, was appointed to the position of Chairman of the Board of Directors. Accordingly, the potential conflict of interest associated with the previous organization structure has been eliminated.

Due to a change in Company's Legal Counsel and relocation of the Head Office, on July 30th Mr. Peter Spence resigned as the Company's Secretary. The Company's Board is currently looking to appoint a new Secretary.

4. CADRI

On November 14, 2007, Global acquired the business assets and net working capital of CADRI. During fiscal year ended December 31, 2008, Company Management reviewed the design and the operating effectiveness of internal control over financial reporting of CADRI's significant processes. As a result, a number of process-level controls including information technology and general computer controls were assessed to be ineffective as of December 31, 2008 and 2009.

To date, some key internal controls are still under evaluation and implementation as this is a continuous improvement process. CADRI management has achieved a level of enhancement into the internal control over financial reporting structure; however, the primary focus continues to be the implementation of a new accounting system. This will allow the following:

- i) The automation of some processes and implementation of some automated controls that are currently manually intensive;
- ii) The integration of some end user computing ("EUC") applications, for example spreadsheets and databases (such as CADRI's inventory data base); and

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- iii) The implementation of some controls relating to information technology, also referred to as General Computer Controls ("GCC"), such as program changes, access to programs, and data and computer operations.

The application of Bill 198 and its regulations is gradually leading CADRI to formalize its processes and control measures that are already in place and to introduce new ones. CADRI's Management has chosen to make this a strategic endeavor, which will result in operational improvements and better management.

Management had previously identified the following internal control deficiencies:

Accounting for Inventories

Although continuous improvement has been made, there continues to be dissatisfaction with system control over CADRI's inventory processes which may have had an impact on the accounting for the cost of goods sold and the revenue recognition based on the percentage of completion method for certain long-term contracts. During the second quarter of 2009, CADRI hired an experienced inventory control manager to oversee procurement and inventory control. Since then, CADRI's inventory processes have been under continuous review to enhance efficiency and effectiveness, and strengthen controls to improve the accuracy, completeness, validity, valuation and timely recording of inventory transactions in the following areas:

- a) Tracking of inventory movements including the receipt, transfer, storing and shipping of goods, the issuance of parts and materials to the production to capture all costs relating to a work order and the identification of inventory on consignment;
- b) Purchasing level of authority and purchase order completion and approval;
- c) Physical access security to inventory;
- d) Periodic physical inventory count procedures and review and approval of inventory adjustments;
- e) Data entry and maintenance of the accuracy and integrity of the inventory databases, including access restriction to personnel;
- f) Creation, changes and maintenance of master parts numbers in the inventory databases;

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- g) Allocation of time and attendance to work orders and recording of labor costs;
- h) Creation and closing of work orders; and
- i) Evaluation of inventory net realizable value and determination of allowance for obsolete items.

Although progress has been made, Management is of the opinion that controls over accounting for inventories will only become more reliable with the implementation of additional process controls together with the implementation of the new accounting system, which is currently underway.

Accounting for Accounts Payable and Accrued Liabilities

During the second quarter of 2010, there continued to be improvements in the validation of vendor invoices against the approved purchase order and the receiving documents. There has also been an improvement in the procedures to determine accrued liabilities at period end. Some of the manual procedures performed to validate vendor invoices may be automated with the implementation of the new accounting system.

Accounting for Capital Assets

Procedures and controls to capture and record capital assets accurately, completely and timely and maintain adequately the fixed assets register have continued to be improved at CADRI during the second quarter of 2010. CADRI management has implemented procedures to identify and record capital assets on a timelier basis, and follow up on capital expenditure projects. The implementation of an accounting system will allow the automation of the process and the integration of EUC applications reducing the risk of errors due to manual data entry.

Period End Financial Reporting Procedures

The period end financial reporting procedures include account reconciliations over balance sheet accounts and various account analyses. CADRI's account reconciliation procedures have been formalized, and most account reconciliations are being performed on a timely basis and supported by adequate documentation. CADRI management now utilizes a month-end schedule to manage the general ledger close process. In November 2009, the VP Finance was hired at CADRI to strengthen CADRI's accounting and finance department.

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Reliance on Spreadsheets

Accounting personnel at CADRI rely heavily on the use of accounting spreadsheets to generate monthly financial reports. Although Management believes this reliance has not resulted in a misstatement of the financial statements, it is a material weakness in CADRI's control environment because of the pervasiveness and significance of the use of spreadsheets. The new accounting system, implementation of which commenced in the second quarter of 2010, is expected to generate a greater portion of CADRI's financial reporting and analysis in place of extensive spreadsheet use once fully integrated.

Journal Entries

During the first quarter of 2009, CADRI Management established new standards for supporting documentation and strengthen the review and approval process for journal entries. Beginning in the second quarter of 2010, CADRI's journal entries were required to be accompanied by supporting documentation and are reviewed and approved for validity, completeness and accuracy. CADRI Management continues to monitor these changes closely to ensure that journal entries are adequately reviewed and approved.

Segregation of Duties and Access Rights

Given the small scale of the accounting department of the subsidiary, there were certain control deficiencies relative to segregation of duties, access rights and conflicting roles within applications. CADRI Management recently hired a new Controller during the first quarter of 2010, and with addition of the new VP Finance is undertaking the analysis of conflicting roles before providing access rights to accounting applications in the new accounting system.

End User Computing Applications (for example, spreadsheets and databases)

CADRI utilizes various EUC applications to support the accounting of transactions such as: inventory management, inventory month-end adjustment, depreciation expense, accrued liabilities, percentage of completion and fixed assets additions. Those EUC applications are not supported by the same control environment as purchased computing applications. CADRI management will establish a corporate procedure to implement access and change controls over EUC applications. Some of those EUC applications may be developed and integrated into the new accounting system.

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Inherent Limitations on Effectiveness of Controls

There were continual improvements to, but no material changes in, the design of CADRI's disclosure control systems and internal control over financial reporting during fiscal 2008, fiscal 2009, or so far in 2010, as the potential improvements to these controls is largely dependent upon the new accounting system and the related processes and controls. In November 2009, a VP Finance was hired to provide increased focus to these required improvements, including implementation of the new accounting system. CADRI regularly reviews its controls and procedures and engaged an independent advisor during the quarter to examine the new accounting system implementation and provide recommendations for a Control and Risk Matrix. The process has involved accounting staff to review controls, provide training and increase awareness with the testing of the control activities, examination of weaknesses and suggesting improvements.

In connection with the Canadian Securities Administrators National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Findings", the Company's Management, with the participation of the CEO and CFO, has evaluated the effectiveness, as at June 30, 2010, of the Company's internal controls over financial reporting and has concluded that such internal controls over financial reporting are not effective, based on such evaluation. Management has carried out procedures which it believes has enabled it to mitigate the risk of a material misstatement in financial reporting. However, there can be no assurance that the risk can be reduced to less than a remote likelihood of a material misstatement

It should be noted that a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that Management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances, or (ii) the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

Based on the work performed to date, Management believes that there are no material inaccuracies or omissions of any material fact in this MD&A. Management, to the best of

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its knowledge, also believes that the June 30, 2010 second quarter interim consolidated financial statements are fairly presented in all material respects.

Forward Looking Statements

This MD&A contains certain forward-looking statements about the objectives, strategies, financial conditions, results of operations and businesses of Global. Statements that are not historical facts are forward-looking and are subject to important risks, uncertainties and assumptions. These statements are based on the Company's current expectations about its business and the markets in which it operates, and upon various estimates and assumptions. The results or events predicted in these forward-looking statements may differ materially from actual results or events if known or unknown risks, trends or uncertainties affect the Company's business, or if its estimates or assumptions turn out to be inaccurate. As a result, there is no assurance that the circumstances described in any forward-looking statement will materialize. Significant and reasonably foreseeable factors that could cause the Company's results to differ materially from its current expectations are discussed in the section entitled "Business Risks" contained in the Company's Management's Discussion and Analysis for the year ended December 31, 2009 filed by Global with the Canadian securities commissions (available on SEDAR at www.sedar.com), as updated under the heading "Business Risks" beginning at page 15 of this MD&A. The Company disclaims any intention or obligation to update any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.

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For additional guidance, please review the Company's first quarter interim consolidated financial statements which are available on SEDAR at www.sedar.com.

<p><u>DIRECTORS</u></p> <p>Thomas Dea ^{1 2} Chairman of the Board</p> <p>Laurie Bennett, CA ² Chair, Audit Committee</p> <p>Jacques Cote ^{1 2}</p> <p>Alan Sellery ¹</p> <p><u>OFFICERS</u></p> <p>Fausto Levy President & Chief Executive Officer</p> <p>Ross Corcoran, MBA Chief Financial Officer</p> <p>Brian McMullan, CA Vice President</p>	<p><u>CORPORATE OFFICE</u></p> <p>Global Railway Industries Ltd.</p> <p>Head Office 1255 Brydges Street, London, Ontario , N5W 2C2</p> <p>Administrative Office (mailing address) 155 Montreal-Toronto Blvd, Lachine, Quebec, H8S 1B4</p> <p>Phone (514) 634-3131, Ext. 136 Fax (514) 634-3932 Email info@globalrailway.com Website: www.globalrailway.com</p> <p>BANKERS HSBC Bank Canada – Montreal, Quebec BMO – Montreal, Quebec HSBC Bank - Rochester, New York</p> <p>AUDITORS KPMG LLP London, Ontario</p> <p>LEGAL COUNSEL Harrison Pensa LLP London, Ontario</p> <p>Davies Ward Phillips & Vineberg LLP Montreal, Quebec</p> <p>TRANSFER AGENT Computershare Trust Company of Canada 600, 530 - 8th Avenue S.W. Calgary, Alberta T2P 3S8 Phone 1-800-564-6253</p> <p>STOCK EXCHANGE Toronto Stock Exchange Symbol: GBI</p>
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¹ Member of Special Committee

² Member of Audit Committee