GLOBAL RAILWAY INDUSTRIES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2008

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, 2008. This MD&A has been prepared as of August 13, 2008. Except where otherwise indicated, all financial information is expressed in Canadian dollars. Several accounting policy and procedural changes were made in 2008 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 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 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 second quarter interim 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.

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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 six month periods ended June 30, 2008, with comparative figures for 2007 and 2006:

	Three months			Six months		
	2008	2007	2006	2008	2007	2006
		(unaudited)			(unaudited)	
Sales	$14,615,870	$9,215,968	$8,683,781	$30,134,977	$18,709,013	$16,506,696
Net earnings (loss):						
Continuing operations	99,788	1,086,628	1,200,103	741,386	2,275,073	2,285,566
Discontinued operations	-	-	(106,865)	-	-	(523,085)
Net earnings for the period	$ 99,788	$1,086,628	$1,093,238	$741,386	$ 2,275,073	$ 1,762,481
Net earnings per share from continuing operations:						
Basic	$0.01	$0.07	$0.08	$0.05	$0.15	$0.15
Diluted	$0.01	$0.07	$0.08	$0.05	$0.15	$0.15
Net earnings per share:						
Basic	$0.01	$0.07	$0.07	$0.05	$0.15	$0.12
Diluted	$0.01	$0.07	$0.07	$0.05	$0.15	$0.12
Weighted average number of common shares outstanding:						
Basic	15,180,119	14,931,744	14,856,744	15,162,330	14,931,744	14,856,744
Diluted	15,391,190	15,198,430	14,929,167	15,410,834	15,152,028	14,917,989
Total Assets	$65,852,440	$37,415,920	$31,842,741	$65,852,440	$37,415,920	$31,842,741
Total Long-Term Liabilities	$22,651,267	$1,495,776	$ -	$22,651,267	$1,495,776	$ -

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In November 2007, Global acquired substantially all of the business assets of four related private companies ("CAD"), which now operate within CAD Railway Industries Ltd. ("CADRI"), a wholly-owned subsidiary of Global. The acquisition advanced the overall strategy described above and significantly increased the size of Global. Management expects 2008 to be a transition year as the Company integrates and formalizes processes, procedures and training at CADRI. The Company is investing significant management time and money to enhance CADRI's business management capacity and skills. The Company is investing capital ($4.7 million to date) to provide CADRI with the facilities, machinery and tooling necessary to achieve the capacity, high quality and reliability that Global is known for throughout the industry.

By 2009, Management expects these upgrades to be in place and operating efficiently and effectively.

Significant Events in the Second Quarter of 2008

Management continues the transformation of Global as it integrates the acquisition of CADRI, which doubled Global's revenue base, and starts up the five year $101.5 million VIA Rail Canada ("VIA") locomotive remanufacturing contract. These initiatives are on track but are having a short-term negative impact on earnings as Management positions the Company for growth and improved financial results in 2009 and beyond. Continued investments of time and money are being made to achieve improvements in CADRI's production processes and procedures, training, resources, hiring, management control systems, quality assurance testing and capital infrastructure. Although this will be an ongoing process of continuous improvement, Management expects the majority of these changes to be in place and operating efficiently and effectively before the end of the year.

Despite a difficult labor market in Quebec and the competitive hiring practices used by Canadian National Railway and VIA for trade employees, CADRI was able to meet its labour requirements for the VIA contract. Management expects that this will be a continuing challenge for the remainder of the year. CADRI has strengthened its engineering, operation, and procurement teams to quickly transition from the learning phase of the VIA contract to the regular production phase by year end. Pursuant to the contract, the first completed locomotive is not expected to be delivered to VIA until early 2009. Management is confident that CADRI will meet the delivery schedule committed to VIA.

As part of CADRI's ongoing change and improvement program, Management hired and re-structured several key positions, including the hiring of a new Director of Finance with

a specific objective to improve internal controls, cost control and financial reporting. It is expected that the majority of these changes will occur by year end.

During the second quarter of 2008, CADRI completed the first environmentally friendly locomotive prototype for Electro Motive Diesel ("EMD"). The locomotive was successfully tested by EMD and is now operating as part of a test program with Canadian Pacific Railway ("CP"). Initial feedback from CP is very positive. CADRI expects this initiative with EMD to generate new sales in 2009 and beyond.

In June 2008, CADRI completed the acquisition of the land and building adjacent to its main facility building. The acquisition price was $3.5 million, plus transaction costs. CADRI had previously leased approximately sixty percent of the acquired building for the VIA contract. This acquisition gives CADRI complete control over rail access to the facility and increases its capacity to undertake additional long term re-manufacturing contracts, such as the VIA Rail Light, Rapid and Comfortable ("LRC") opportunity discussed below.

During the second quarter, the Company completed the transfer of CADRI's metal fabrication equipment from Courtice, Ontario to the main CADRI facility in Lachine, Quebec. The new fabrication shop is operational and the consolidation of processes and procedures is substantially complete. Two of the three buildings located at Courtice, Ontario were returned to their landlords without cost, while the third building was converted to CADRI's Ontario sales and distribution center. There is still emergency repair and manufacturing capability in Courtice to address quick turnaround customer needs. The consolidation was completed within budget. In the second half of 2008, Management will begin to rationalize CADRI's current outsourced fabrication activities, in-sourcing where appropriate, to reduce cost and lead-times.

In the second quarter of 2008, G&B Specialties, Inc. ("G&B") continued its focus on lean manufacturing initiatives and completed two lean manufacturing events. The first event was a complete review of the product assembly department and yielded new floor layouts to facilitate cellular manufacturing to reduce throughput times, increase productivity and eliminate potential quality and safety issues. The second event focused on the order entry process and provided significant improvements in the order entry lead-time. Management is committed to continuous improvement in operations to increase productivity, eliminate waste and improve quality and safety.

During the second quarter of 2008, the Company's and its independent valuators substantially completed the fair market valuation of the CAD land, building, equipment and intangible assets, resulting in a net increase of the carrying value of these assets in the amount of approximately $3.7 million, before taxes The changes recorded to the carrying values of these assets resulted in an increase to the Company's second quarter

amortization and depreciation expense totaling approximately $242,000, of which about half relates to the first quarter of 2008.

Sales

Through its subsidiaries, the Company generates sales primarily from the sale of track switching components, highrail gear, rail car parts, event recorders with crash hardened memory modules, remanufacturing of locomotives, repair of rail cars, and remanufacturing of locomotive and marine engines and parts. Sales originate predominantly in the United States and Canada, with less than 3% from other countries.

Sales for the three month period ended June 30, 2008 were $14.6 million, representing an increase of 58.6% compared with the same quarter of 2007. Sales for the six months ended June 30, 2008 were $30.1 million, an increase of 61.0% compared with the prior year. The Company's 2008 results include six months of CADRI revenues which were below Management's expectations for the reasons outlined below.

During the second quarter, G&B's sales did not meet expectations, however the lower than expected track and signal sales were largely offset by higher than expected rail gear sales. In discussions with some customers, Management was informed that there will be delays in some signaling projects this year, resulting in reduced track and signal sales during the second half of 2008. This not only affects G&B directly through layout and accessory sales, but also has a negative impact on G&B's component sales to original equipment manufacturers that provide other signaling products to the railroads. Management has reviewed the sales data with G&B's key customers and is satisfied that G&B has not lost any market share to its competitors.

G&B signed two long term contracts with US class 1 railroads during the second quarter of 2008. The first was a five year agreement that designates G&B as the sole provider of track and signal layouts and miscellaneous support material. Based on an average of the last three years sales volumes, the contract is worth approximately $7.5 million over the five year time frame. The second contract was for three years, and on the same basis, is worth approximately $3.2 million over the contract life. Management foresees a solid future in track and signal product sales and anticipates a return to 2006/2007 sales levels in 2009 and beyond.

As stated above, sales and orders for G&B's rail gear exceeded expectations and experienced double digit growth year-over-year. G&B continues to increase market share with high quality, reliable products at competitive prices. In 2008, G&B has won new orders from two new class 1 railroad customers and several fleet management companies. G&B was awarded an order with a major railroad in Mexico and expects to start shipping in late 2008. This award was the result of efforts to expand the G&B

market to include Latin America where Management believes there is untapped opportunity for growth. Going forward management expects continued growth in the rail gear business.

In the second quarter Bach-Simpson Corporation ("Bach-Simpson") signed three separate contracts with major transit car builders which are expected to generate a total of $2.3 million in revenue over the next four years. If the options on these contracts are exercised, the contracts will generate in excess of $3.9 million. Along with other contracts in process, these new contracts raise Bach-Simpson's backlog to over $9.0 million and provides a solid base for continued growth. Revenues from these contracts will commence in 2009.

Bach-Simpson signed a contract with a major railway OEM for a standard platform event recorder system for use on new multi-level stainless steel cars, as well as new electric and dual power (electric/diesel) locomotives built by the OEM in Germany. While this particular order for locomotives is being supplied to a North American customer, locomotives produced by the OEM in Germany are predominantly supplied to European customers. This is a particularly historic contract for Bach-Simpson as it represents the first entry into the very strong European market. Revenue from this contract will commence in 2009. Bach-Simpson's results to date indicate that the car and locomotive markets are strong and are meeting expectations for 2008.

During the second quarter of 2008, one of CADRI's locomotive clients, Rail Power Technologies Corp. ("Rail Power"), announced that they will build a shop facility in Quebec. CADRI completed the Union Pacific contract with Rail Power earlier in the year which contributed to the reduced sales during the second quarter. CADRI expects Rail Power's plans to build a Quebec-based locomotive shop to have a negative impact on future sales revenues for locomotive assembly. However, Rail Power will continue to place some orders with CADRI during the remainder of 2008.

CADRI continues to progress with its capital investment program and the planned transition of its sales focus from international-based to North American-based sales. As expected, these programs will have a temporary negative impact on CADRI's overall sales for the third and fourth quarters of 2008. This transition will be complete by early 2009 when CADRI ramps up production in its diesel engine and component business. Furthermore, the VIA contract will increasingly begin to utilize some of CADRI's diesel engine production capacity.

In June 2008, CADRI submitted a bid to VIA to remanufacture 93 VIA LRC cars. CADRI's management team has extensive past experience with this kind of equipment. This is an open, competitive bid, thus there are no assurances that CADRI will be a short listed bidder on this $100+ million contract.

Overall, the good news for the Company is that railroads will continue to expand their operations as shippers move their products from trucks to rails, and as commuters increasingly rely on rail transit systems. Railroads have tightened their belts in the short term to deal with their increased costs of operations resulting from spiraling fuel prices and both the harsh 2008 winter and the recent Midwest flooding. Fuel is quickly becoming the number one cost incurred by railroads. In the second quarter of 2008, Canadian National Railway disclosed that fuel had become their largest cost for the first time in its history. In the long term, railroads will be seeking solutions to offset their increased fuel costs. This bodes extremely well for the Company's locomotive remanufacturing capabilities at CADRI because remanufactured locomotives cost about 60% less than a new locomotive, become 20% more fuel efficient, become more reliable in the field, and emit 80% fewer pollutants into the environment. As previously stated, in 2008, the Company continues to invest in its future by putting people, processes, procedures and infrastructure in place to capitalize on the opportunities materializing in the locomotive remanufacturing market.

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 strengthening Canadian dollar has the effect of decreasing 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. During Q2 2008, approximately 59% of the Company's sales were transacted in United States dollars, a reduction of nearly 30% compared with the second quarter of 2007. Year-to-date approximately 58% of the Company's sales were transacted in United States dollars, a reduction of nearly 30% compared with the same period in 2007. The improved currency balance achieved in 2008 resulted from the high percentage of Canadian dollar denominated CADRI sales during the quarter, an expected benefit of the CAD acquisition. The mix of Canadian dollar sales to United States dollar sales is in line with Management's expectations.

The effect of the fluctuating value of the Canadian dollar against the United States dollar negatively impacted the Company's 2008 second quarter and year-to-date sales growth. Had the exchange rate remained constant year over year, 2008 second quarter sales growth would have been 66.8%, or 5.7% higher than the reported result, and 2008 year-to-date sales growth would have been 72.8%, or 9.3% higher than the reported result.

Gross Margins

Gross margins for the second quarter of 2008 were 28.3%, compared with 41.5% for the same period in 2007. Gross margins for the six month period ended June 30, 2008 were 28.6%, compared with 41.6% for the same period in 2007. The gross margin change

experienced in 2008 is primarily attributable to the inclusion of the CADRI business and meets Management's expectations. Management anticipates gross margins between 29% - 31% for the remainder of 2008.

During the first quarter of 2008, the Company recorded the benefit of a scientific research and experimental development ("SRED") claim which improved gross margins by $144,000. No SRED claims were recorded during the same period in 2007, or during the second quarter of 2008.

Operating Expenses

Salaries and general administrative expenses for the three months ended June 30, 2008 were 21.5% of sales, compared with 24.1% for the same period in 2007. Salaries and general administrative expenses for the six months ended June 30, 2008 were 19.9% of sales, compared with 22.3% for the same period in 2007. As the CADRI business is integrated into Global, Management expects salaries and general administrative expenses to range between 16.0% and 18.0% of sales for the remainder of 2008.

Salary expenses for the second quarter of 2008 were $530,000 higher than for the same period in 2007, with the majority of the increase attributable to the inclusion of CADRI's Lachine division. During the second quarter of 2008, the Company incurred an expense of approximately $196,000 related to non-cash stock-based compensation compared with about $192,000 in the same quarter of 2007.

Salary expenses for the six months ended June 30, 2008 were approximately $1.0 million higher than for the same period in 2007, with the majority of the increase attributable to the inclusion of CADRI's Lachine division. Year over year increases in stock-based compensation expense totaled approximately $34,000. Approximately $81,000 of employee severance costs were incurred resulting from the relocation of CADRI's Courtice, Ontario manufacturing operations to Lachine, Quebec. Regular merit increases and the addition of personnel were also implemented during this period.

General and administrative expenses for the second quarter of 2008 were $390,000 higher than for the same period in 2007, with the majority of the increase attributable to CADRI's Lachine Division. In June 2008, a reserve was established in the amount of approximately $133,000 for impaired trade receivables owing from a CAD shareholder. No similar reserve was required in 2007. Professional fees related to auditing, reviews, internal control over financial reporting ("ICOFR") assistance, tax and legal were $76,000 higher than the second quarter of 2007. During the second quarter of 2008, the Company incurred approximately $58,000 for corporate development costs, which was $68,000 lower than the same period in 2007.

General and administrative expenses for the six months ended June 30, 2008 were $806,000 higher than for the same period in 2007, with the majority of the increase attributable to CADRI's Lachine Division. In June 2008, a reserve was established in the amount of approximately $133,000 for impaired trade receivables owing from a CAD shareholder. No similar reserve was required in 2007. Professional fees related to auditing, reviews, internal control over financial reporting ("ICOFR"), tax and legal were $76,000 higher than the first six months of 2007. In March 2008, an accrual of $175,000 was recorded for the expected cost relating to a contract dispute which was settled during the second quarter. During the first six months of 2008, the Company incurred approximately $58,000 for corporate development costs compared to $206,000 in the first six months of 2007.

Interest Income/Expense

In the three month period ended June 30, 2008, net interest expense on total bank debt was $182,000 compared with net interest income of $97,000 in the 2007 second quarter. During the second quarter of 2008, the Company incurred approximately $175,000 of interest expense on long-term debt incurred in connection with the acquisition of CAD. The Company did not have any debt in 2007.

For the six month period ended June 30, 2008, net interest expense on total bank debt was $388,000 compared with net interest income of $145,000 in the 2007 second quarter. During the first six months of 2008, the Company incurred approximately $375,000 of interest expense on long-term debt in connection with the acquisition of CAD. The Company did not have any debt in 2007.

For financial statement purposes, amortization of costs incurred to establish the Company's credit facility has been classified as interest expense. During the second quarter of 2008, credit facility cost amortization was $24,000. For the six months ended June 30, 2008, credit facility cost amortization was $48,000.

For financial statement purposes, royalty income has been classified as interest income. During the first quarter of 2008, the Company earned royalty income of $48,000 relating to a product line sold in 2006. During the second quarter of 2007, the Company earned royalty income of $64,000 relating to a product line sold in 2006. No royalty income was earned during the first quarter of 2007, or in the second quarter of 2008. No further royalty income is expected in 2008.

Income Tax

The 2008 second quarter effective tax rate on earnings was 55.9% compared with 22.2% for the same period in 2007. Non-deductible items and United States Federal and

State taxes were proportionately higher as a percent of pre-tax earnings during the second quarter of 2008 compared with the same period in 2007, and combined to increase the second quarter 2008 tax provision by approximately 32.6% above the expected rate, compared to just 8.8% in the same period in 2007. Tax rate variances, differences resulting from the finalization of the 2007 tax returns, and differences related to the CADRI's fair market value adjustments and environmental liability reserve accounted for the remaining variance between the expected and effective tax rates for the second quarter of 2008. In the second quarter of 2007, the Company's effective tax rate was reduced by the deduction of certain foreign exchange gains realized on intercompany balances.

The 2008 six month effective tax rate on earnings was 44.9% compared with 30.6% for the same period in 2007. Non-deductible items and United States Federal and State taxes were proportionately higher as a percent of pre-tax earnings during the first six months of 2008 compared with the same period in 2007, and combined to increase the six month 2008 tax provision by approximately 12.7% above the expected rate, compared to just 5.1% in the same period in 2007. Tax rate variances, differences resulting from the finalization of the 2007 tax returns, and differences related to the CADRI's fair market value adjustments and environmental liability reserve accounted for the remaining variance between the expected and effective tax rates for the second quarter of 2008. In the second quarter of 2007, the Company's effective tax rate was reduced by the deduction of certain foreign exchange gains realized on intercompany balances.

The estimated effective tax rate range for the remainder of 2008 is 38.5% to 39.5%.

Foreign Exchange

The Company incurred foreign exchange losses amounting to $57,000 during the second quarter of 2008, compared with foreign exchange losses of $231,000 during the same period in 2007.

During the six months ended June 30, 2008, the Company incurred foreign exchange losses amounting to $96,000, compared with foreign exchange losses of $258,000 during the same period in 2007.

Net Earnings

Net earnings for the second quarter of 2008 were $100,000, compared with $1.1 million for the same period in 2007. Net earnings for the six months ended June 2008 were $741,000, compared with $2.3 million for the same period in 2007.

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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. At the beginning of 2008, the North American Class 1 railroads announced a commitment to their long-term capital spending plans and planned to invest more in 2008 as compared to 2007. However, during the first half of 2008, Global experienced some slow down in anticipated orders as a consequence of unprecedented high fuel prices, flooding in the Midwest and a harsh winter that delayed some orders and diverted funds away from some capital projects to address the consequences of the floods and harsh winter. Management expects to recover these deferred orders but not necessarily in 2008. Going forward, 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 track and signal, locomotives and rail cars.

Considering this is a transitional year, Management remains optimistic about the Company's projected long-term growth potential. The CADRI integration and VIA contract startup are progressing on schedule which brings a higher level of confidence of a return to expected profitability in the second half of the year.

Financial Results

	Q2 '08	Q1 '08	Q4 '07	Q3 '07	Q2 '07	Q1 '07	Q4 '06	Q3 '06
Sales*	$14,616	$15,519	$10,432	$7,671	$9,216	$9,493	$7,560	$7,817
Net Earnings*	100	642	409	609	1,087	1,188	738	604
EPS, Basic	0.01	0.04	0.03	0.04	0.07	0.08	0.05	0.04
EPS, Diluted	0.01	0.04	0.03	0.04	0.07	0.08	0.05	0.04

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

Liquidity and Capital Resources

On June 30, 2008, cash and cash equivalents on hand were $479,000 compared with $165,535 on March 2008, and $895,000 on December 31, 2007. In the second quarter of 2008, the Company had an operating cash shortfall of $96,000, compared with cash generated from operations of $1.2 million in the same period of 2007. During the second quarter of 2008, the Company's utilized $4.4 million of cash for capital investments, compared with $82,000 in the second quarter of 2007. To finance these investments, the Company increased its debt by $4.7 million during the second quarter of 2008. The Company did not have any debt as at June 30, 2007.

During the six month period ended June 30, 2008, the Company generated $306,000 in cash from operations, compared to $1.5 million in the same period of 2007. During the first six months of 2008, the Company's utilized $5.6 million of cash for capital investments, compared with $272,000 in the same period of 2007. To finance these investments, the Company increased its debt by $4.8 million during the first half of 2008. The Company did not have any debt as at June 30, 2007.

In November 2007, the Company entered into a credit agreement with two Canadian chartered banks, which provided facilities aggregating $34.1 million. As at June, the total drawn under the credit facilities was $18.9 million. With the new credit facility in place, Management believes that adequate funding is available in both the short and the long term to provide for ongoing operations, investment in required capital infrastructure, and planned growth. Management is not aware of any trends or fluctuations in its cash flow that would create liquidity concerns or capital resource deficiencies. The Company is in compliance with all of its debt covenants, having received a waiver of the capital expenditure cap from its bankers. The credit facility is subject to annual renewal.

Capital Expenditures

For 2008, the Company's Board of Directors has approved a capital budget in the amount of $7.5 million, subject to obtaining the cap waiver from the banks. Of this amount, approximately $5.0 million has been allocated for the purchase of production and office facilities and approximately $2.0 million has been allocated to CADRI's Lachine division for production facility capacity increases and modernization.

During the six months ended June 30, 2008, the Company's capital expenditures totalled $5.6 million. Capital expenditures included US$525,000 for the acquisition of G&B's office building that was previously under lease, $3.6 million for CADRI land and building that was previously under lease, $733,000 for manufacturing equipment, $376,000 for production facility and office renovations, $202,000 for railway track improvements, $82,000 for computer hardware and software upgrades, and $40,000 for furnishings and office equipment. Funding for capital expenditures was derived from internal cash flow and bank debt.

Contractual Obligations

The Company has equipment, office and factory lease commitments at Global, G&B, CADRI and Bach-Simpson. These commitments total approximately $126,000 for the remainder of 2008; $238,000 in 2009; $87,000 in 2010; $49,000 in 2011; and $13,000 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. During the second quarter, CADRI acquired the building that was previously under lease. As a result, the Company's annual lease obligations have been reduced by $286,000.

In December 2007, CADRI was awarded a $101.5 million contract to remanufacture VIA's fleet of 53 F40 locomotives at its Lachine plant during 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 a performance guarantee equal to the greater of i) $5.0 million, and ii) 50% of VIA's annual spending under this contract. The performance bond 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 anytime; 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, one year on repairs.

The Company has entered into fixed price purchase contracts amounting to approximately $11.0 million to acquire materials required for the VIA contract over the next five years. These contracts 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 totalling $436,000 with a company owned by the interim President of CADRI.

The Company maintains a long-term liability on its consolidated balance sheet in the amount of $1.0 million, which represents a prepayment by VIA in respect of the remanufacture of locomotives. The prepayment will be drawn down during the 5 year term of the agreement in equal amounts of approximately $18,900 upon final acceptance of each locomotive by VIA.

Share Capital

At August 13, 2008, the Company had 15,239,900 common shares outstanding. During the second quarter of 2008, a total of 75,000 stock options were exercised and 22,500 additional options were granted in accordance with the Company's Stock Option Plan. During the six months ended June 30, 2008, a total of 87,500 stock options were exercised and 72,500 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 16,684,244 shares outstanding.

Related Party Transactions

During the second quarter of 2008, CADRI paid $72,000 for management services provided by a company owned by the interim President of CADRI. No similar amounts were paid during the second quarter of 2007. This arrangement can be terminated at the discretion of the Company. In the normal course of business, CADRI purchased approximately US$680,000 of inventory from a company owned by the interim President of CADRI during the second quarter of 2008. These inventory purchases were made under terms and conditions comparable to those of CADRI's other inventory purchases, and will be ongoing. No similar amounts were paid during the second quarter of 2007.

During the first six months of 2008, CADRI paid $166,000 for management services provided by a company owned by the interim President of CADRI. No similar amounts were paid during the same period of 2007. This arrangement can be terminated at the discretion of the Company. In the normal course of business, CADRI purchased approximately US$710,000 of inventory from a company owned by the interim President of CADRI during the first six months of 2008. These inventory purchases were made under terms and conditions comparable to those of CADRI's other inventory purchases, and will be ongoing. No similar amounts were paid during the same period of 2007.

CADRI Acquisition of Land and Building

In June of 2008, CADRI exercised an option to purchase the land and building it had previously been leasing from the CAD shareholders. The purchase option price on the land and building was $3.5 million, plus transaction costs of $93,000. At the time the purchase option was being negotiated, the land and building had an appraised fair market value of $5.2 million. It was also known that costs would be incurred to remediate environmental contaminates 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 option 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 on the Company's balance sheet, 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.

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 warranty 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 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 Company does have employment and non-competition agreements in place with each member of its senior management team.

Business Strategy

The Company's business strategy includes the 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, business 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 increase revenues, expand its customer base, reduce net foreign exchange risk and expand 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 of its 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. In addition, the credit facility is subject to renewal on an annual basis. Failure of the banks to renew, or material alteration of the terms on which credit is offered, could have a negative effect on the Company.

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 materials 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.

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. Continued sales to these customers depends upon the Company maintaining

its relationship with these customers and the customers' ability to execute their expenditure programs, which are subject to external economic influences and their ability to sustain profitability. As mentioned in the Outlook section of this MD&A, these customers are all forecasting increased spending in the markets the Company serves.

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 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.

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.

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 2008 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. 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 service providers, 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. While 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.

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 $22.0 million, excluding transaction costs of $1.0 million. 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 $1.8 million. The vendors are not in agreement with the Company's calculation 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 sale proceeds into an escrow account against which the Company is entitled to claim for recovery of the net working capital shortfall.

The acquisition by the Company 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 based on the estimated fair market values determined by the Company's independent, third party valuators. Management is still finalizing their best estimate of the relative fair values of the identifiable assets acquired and liabilities assumed at the acquisition date, and accordingly, the allocation could materially change.

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 for each unit of production. If circumstances arise that 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.

Adoption of New Accounting Policies

In the first quarter of 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants:

(a) Section 1535 - Capital Disclosures, establishes standards for disclosing information about an entity's capital and how it is managed. It requires the disclosure of information about an entity's objectives, policies and processes for managing capital.

(b) Section 3031 - Inventories, which requires inventory to be measured at the lower of cost and net realizable value. The standard provides guidance on the types of costs that can be capitalized and requires the reversal of previous inventory write-downs if economic circumstances have changed to support higher inventory values. The adoption of this standard did not have a material impact on Global's consolidated financial statements.

(c) Section 3862 - Financial Instruments - Disclosures, requires entities to provide disclosures in the financial statements that enable users to evaluate the significance of financial instruments on the entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

(d) Section 3863 - Financial Instruments - Presentation, establishes standards for presentation of financial instruments and nonfinancial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The adoption of these standards did not have any impact on the classification and valuation of the Company's financial instruments.

The Company adopted Sections 1535, 3031, 3862 and 3863 on a prospective basis with no restatement of prior period financial statements.

Future Accounting Policies

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

(a) Section 3064 - Goodwill and intangible assets, establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company will adopt this new standard in the first quarter of 2009 and is currently assessing the impact of adoption on its consolidated financial statements.

(b) In February 2008, the CICA's Accounting Standard Board announced that Canadian public companies will adopt International Financial Reporting Standards as issued by the International Accounting Standards Board effective January 1, 2011. The Company is currently assessing the impact of adoption on its consolidated financial statements.

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 June 30, 2008. 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. 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 has extensive experience 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.

3. Corporate Governance

   In May 2007, Terry McManaman, the Company's President and CEO, was elected 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.

Since the acquisition of CAD in November 2007, Management has been evaluating CADRI's internal controls over financial reporting. As anticipated, a number of design deficiencies have been identified and a remediation plan is currently being developed.

Specifically, Management has identified areas of concern at CADRI as follows:

1. Enterprise resource system

   CADRI does not have an integrated enterprise resource planning and accounting system ("ERP") in place. Instead, a number of non-integrated systems and manual processes are utilized to track and record CADRI's financial transactions. Areas of concern include weak controls over inventory costing, sales quotation tracking, the customer billing process and gross margin analysis, as well as the absence of a systematic interface between CADRI's production activity and its general ledger. Manual preventive and detective controls exist but are poorly designed. This deficiency 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 is currently undertaking a study of CADRI's business processes with the view to implement the same ERP system successfully being used at G&B and Bach-Simpson. This implementation is scheduled for early 2009. In the meantime, Management is also developing manual controls to mitigate the possibility of a material misstatement of the Company's annual or interim financial statements.

2. Segregation of duties

Segregation of duties and user access control deficiencies have been identified within CADRI'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. 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 is reviewing 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 CADRI's accounting and finance departments.

3. Payroll processing

During the first quarter of 2008, Management identified control deficiencies over CADRI's payroll processing within the CADRI's payroll department and on the production floor. Specifically, payroll summaries were not being adequately reviewed prior to being forwarded to an outside payroll service provider. Consequently, required payroll modifications were identified by a review that took place only after the payroll payments had been made. Corrections were made during the subsequent payroll period. Additionally, a formal detailed review of CADRI's production workers' time cards did not occur on a regular basis. 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.

CADRI hired a new Director of Finance during the second quarter of 2008. The new Director of Finance has implemented temporary controls to mitigate the control deficiencies noted above. In conjunction with the Director of Finance, Management is developing more comprehensive preventive and detective controls to mitigate the possibility of a material misstatement of payroll related expense on the Company's annual or interim financial statements occurring, and to safeguard the company against an irregularity with production workers' time cards. These controls are expected to be in place by the end of 2008.

4. Approval of routine and non-routine journal entries

During the first quarter of 2008, Management identified that CADRI's routine and non-routine journal entries were being prepared and entered by CADRI's Controller. These routine and non-routine journal entries should have been reviewed by

someone other than the preparer, prior to entry into the general ledger, to ensure that the journal entries were correct and properly supported. This deficiency 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.

CADRI's new Director of Finance has implemented temporary controls to mitigate the control deficiencies noted above. In conjunction with the Director of Finance, Management is developing more comprehensive preventive and detective controls to mitigate the possibility of an incorrect or unsupported journal entry being entered into CADRI's general ledger. These controls are expected to be in place by the end of 2008.

5. Granting credit to customers and control over the customer masterfile

During the first quarter of 2008, Management identified that CADRI did not have a formal process for establishing credit limits for its customers. Additionally, there were no access controls in place to prevent unauthorized changes to the customer masterfile. 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.

CADRI's new Director of Finance has implemented temporary controls to mitigate the control deficiencies noted above. In conjunction with the Director of Finance, Management is developing more comprehensive preventive and detective controls to mitigate the possibility of unauthorized credit being granted to a customer, and to safeguard against the risk of bad debts. These controls are expected to be in place by the end of 2008.

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, competition and regulatory changes.

GLOBAL RAILWAY INDUSTRIES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2008

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

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Chairman of the Board

Phillip Ogden[2]
Lead Director
Chair, Compensation Committee

Jean Clerk, QC [1]

James Renner, MBA, P.Eng[3]

Tim Sanderson[2]

Thomas Schmidt[1]

Frank Vasilkioti[2] [3]

Garry Zurowski, CA[3]
Chair, Audit Committee

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President & Chief Executive Officer

Brian McMullan, CA
Chief Financial Officer

Bill Sturtz, MBA
Chief Operating Officer

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Corporate Secretary

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Symbol: GBI

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

GLOBAL RAILWAY INDUSTRIES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2008