

Consolidated Financial Statements of

GLOBAL RAILWAY INDUSTRIES LTD.

Years ended December 31, 2008 and 2007



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Global Railway Industries Ltd. as at December 31, 2008 and 2007 and the consolidated statements of comprehensive income (loss), shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

London, Canada

March 26, 2009

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Balance Sheets

December 31, 2008 and 2007

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 495,722	\$ 894,458
Accounts receivable	12,728,970	11,521,362
Due from vendor (note 3)	1,536,000	1,774,143
Inventories (note 4)	14,681,363	14,727,658
Costs and estimated earnings on uncompleted contracts in excess of billings (note 5)	3,454,357	-
Prepaid expenses	632,592	172,147
Future income taxes (note 6)	126,250	272,578
	<u>33,655,254</u>	<u>29,362,346</u>
Property, plant and equipment (note 7)	24,168,518	12,437,403
Intangible assets (note 8)	678,250	1,036,875
Future income taxes (note 6)	2,323,829	956,794
Goodwill (note 9)	11,567,632	14,778,273
	<u>\$ 72,393,483</u>	<u>\$ 58,571,691</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Operating loan (note 10)	\$ 2,300,000	\$ 100,000
Current portion of long-term debt (note 10)	18,037,924	-
Accounts payable and accrued liabilities	10,541,571	6,291,453
Billings on uncompleted contracts in excess of costs and estimated earnings (note 5)	-	1,000,000
Customer deposits (note 14b)	169,811	1,000,000
Income taxes payable	711,657	286,375
Future income taxes (note 6)	90,197	-
	<u>31,851,160</u>	<u>8,677,828</u>
Long-term debt (note 10)	-	13,439,705
Customer deposits (note 14b)	830,189	1,000,000
Environmental liability (note 11)	1,240,004	-
Future income taxes (note 6)	3,347,660	1,715,955
Shareholders' equity:		
Share capital (note 12)	26,366,433	26,073,957
Contributed surplus	2,281,127	1,528,403
Accumulated other comprehensive loss	(1,556,523)	(3,573,497)
Retained earnings	8,033,433	9,709,340
	<u>35,124,470</u>	<u>33,738,203</u>
Commitments (note 13)		
Contingencies (note 14)		
Subsequent events (note 22)		
	<u>\$ 72,393,483</u>	<u>\$ 58,571,691</u>

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"signed" Terry McManaman
Chairman of the Board

"signed" Garry Zurowski
Chairman of the Audit Committee

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Statements of Comprehensive Income

Years ended December 31, 2008 and 2007

	2008	2007
Sales	\$ 61,767,266	\$ 36,812,686
Cost of goods sold	44,551,276	22,734,835
Amortization of production property, plant and equipment (note 15)	921,083	-
	16,294,907	14,077,851
Operating expenses:		
Salaries	6,838,608	4,965,926
General and administration	5,872,781	3,614,257
	12,711,389	8,580,183
Earnings before undernoted items	3,583,518	5,497,668
Other expenses (income):		
Amortization of non-production property, plant and equipment and intangible assets (note 15)	499,152	645,934
Interest, net	161,155	(360,681)
Interest on long-term debt	821,152	108,164
Foreign exchange	(352,182)	(65,774)
	1,129,277	327,643
Earnings before goodwill impairment and income taxes	2,454,241	5,170,025
Goodwill impairment (note 9)	2,769,802	-
Earnings (loss) before income taxes	(315,561)	5,170,025
Income tax provision (recovery) (note 6):		
Current	2,012,545	981,391
Future	(652,199)	895,480
	1,360,346	1,876,871
Net earnings (loss)	(1,675,907)	3,293,154
Other comprehensive income (loss):		
Unrealized gain (loss) on translating financial statements of a self-sustaining foreign operation	2,016,974	(2,163,801)
Comprehensive income	\$ 341,067	\$ 1,129,353
Net earnings (loss) per share (note 16):		
Basic	\$ (0.11)	\$ 0.22
Diluted	\$ (0.11)	\$ 0.22

See accompanying notes to the consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Statements of Shareholders' Equity

Years ended December 31, 2008 and 2007

	Number of common shares issued	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings
Balance at December 31, 2006	14,931,744	\$ 25,326,185	\$ 979,502	\$ (1,409,696)	\$ 6,416,186
Stock-based compensation	-	-	793,498	-	-
Options exercised	205,656	747,772	(244,597)	-	-
Change in accumulated foreign currency translation adjustment	-	-	-	(2,163,801)	-
Net earnings	-	-	-	-	3,293,154
Balance at December 31, 2007	15,137,400	26,073,957	1,528,403	(3,573,497)	9,709,340
Stock-based compensation	-	-	846,200	-	-
Options exercised	102,500	292,476	(93,476)	-	-
Change in accumulated foreign currency translation adjustment	-	-	-	2,016,974	-
Net loss	-	-	-	-	(1,675,907)
Balance at December 31, 2008	15,239,900	\$ 26,366,433	\$ 2,281,127	\$ (1,556,523)	\$ 8,033,433

See accompanying notes to the consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007

	2008	2007
Cash flows from (used in):		
Operating activities:		
Net earnings (loss)	\$ (1,675,907)	\$ 3,293,154
Items not involving cash:		
Future income tax provision (recovery)	(652,199)	895,480
Goodwill impairment	2,769,802	-
Stock-based compensation expense	846,200	793,498
Amortization of plant and equipment (note 15)	1,254,019	632,809
Amortization of intangibles (note 15)	308,000	13,125
Variation of amortization included in inventories (note 15)	141,784	-
Interest expense	98,218	7,187
Loss (gain) on sale of property, plant, and equipment	5,654	(36,311)
Unrealized foreign exchange loss (gain)	265,869	(210,328)
Changes in non-cash operating working capital:		
Accounts receivable	(1,207,608)	(5,503,951)
Due from vendor (note 3 and note 22)	64,000	-
Inventories	(2,225,540)	233,542
Costs and estimated earnings on uncompleted contracts in excess of billings	(3,454,357)	-
Prepaid expenses	(460,445)	320,749
Accounts payable and accrued liabilities	4,250,119	2,230,458
Billings on uncompleted contracts in excess of costs and estimated earnings	(1,000,000)	1,000,000
Customer deposits	(830,189)	1,000,000
Income taxes payable	425,282	40,601
Unrealized foreign currency translation gain (loss)	1,121,814	(1,618,949)
	44,516	3,091,064
Investing activities:		
Acquisition (note 3)	(107,762)	(21,131,174)
Due from vendor (note 3 and note 22)	-	(1,774,143)
Purchase of property, plant, and equipment	(7,065,079)	(1,103,096)
Proceeds from disposal of property, plant, and equipment	400	57,153
	(7,172,441)	(23,951,260)
Financing activities:		
Change in operating loan	2,200,000	(740,000)
Change in customer deposits	(169,811)	1,000,000
Change in long-term debt	4,500,000	13,439,705
Issuance of share capital	199,000	503,175
	6,729,189	14,202,880
Decrease in cash and cash equivalents	(398,736)	(6,657,316)
Cash and cash equivalents, beginning of year	894,458	6,830,949
Cash and cash equivalents acquired on acquisition	-	720,825
Cash and cash equivalents, end of year	\$ 495,722	\$ 894,458
Cash and cash equivalents comprised of:		
Cash	\$ 495,722	\$ 869,458
Term deposit	\$ -	\$ 25,000
Supplementary information:		
Interest paid	\$ 1,059,526	\$ 136,925
Income taxes paid	\$ 2,082,908	\$ 871,138

See accompanying notes to the consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

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

1. Significant accounting policies:

(a) Basis of presentation:

The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of Global Railway Industries Ltd. and its wholly-owned subsidiaries, Bach-Simpson Corporation ("Bach-Simpson"), CAD Railway Industries Ltd. ("CADRI"), formerly Prime Steel Inc., and GBI USA Holdings, Inc., formerly YSD Holdings (2004), Inc., and its wholly-owned subsidiaries, G&B Specialties, Inc. ("G&B") and GBI Industries, Inc., formerly YSD Industries (2004), Inc. ("YSD"). All significant intercompany transactions and balances have been eliminated upon consolidation.

At December 31, 2008 the Company was not in compliance with a Funded Debt to EBITDA covenant under its Credit Agreement. Subsequent to the year end, the Company requested a waiver of the non-compliance. The Company's Lenders have issued the waiver of non-compliance. The Company is likely not to be in compliance with this covenant during 2009 and accordingly is in discussions with the Lenders to amend this covenant. The Company's ability to continue as a going concern will be dependent upon the ongoing support of its Lenders in providing the necessary financing arrangements and the generation of profitable operating results. While the Company is focusing its efforts on these matters, there are no assurances that these initiatives will be successful.

These financial statements do not give effect to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities at amounts different from those reflected in these consolidated financial statements; such adjustments could be material.

(b) Inventories:

Inventories of components and purchased parts are valued at the lower of cost and net realizable value, on a first-in, first-out basis. Finished goods and work in process are valued at the lower of cost, including materials, labour and overhead, and net realizable value.

(c) Property, plant and equipment:

Property, plant and equipment are recorded at cost and are amortized on a straight-line basis over the estimated useful lives of the assets as follows:

Asset	Useful life
Buildings	40 years
Machinery and equipment	10 - 20 years
Building improvements	10 years
Furniture	10 years
Computers	5 years
Vehicles	5 years
Leasehold improvements	term of lease

(d) Intangible assets:

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination, is allocated to the individual assets based on their relative fair value. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives as follows:

Intangible asset	Useful life
Customer relationships	10 years
Trade names and trademarks	5 years
Non-compete agreements	5 years
Option to purchase land and building	1 year

Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually or more frequently if events and changes in circumstances indicate that an asset might be impaired.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

1. Significant accounting policies (continued):

(e) 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 events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item on the Consolidated Statements of Comprehensive Income before extraordinary and discontinued operations.

(f) Impairment of long-lived assets:

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

(g) Revenue recognition:

The Company ships to customers who have been identified as worthy of receiving credit and have provided the Company with a legally enforceable purchase commitment at a specific price as agreed to by the Company. The Company recognizes revenue when products are shipped and the customer assumes risk of loss. The Company reviews all significant contracts at their inception and as each item in the arrangement is delivered to determine if the deliverable represents a separate unit of accounting. In the determination, the Company considers whether the delivered item has value to the customer on a stand-alone basis and that there is objective and reliable evidence of fair value of the undelivered items. Revenue is recognized at fair value on shipment or on the percentage of completion basis depending on the nature of the separate unit of accounting that is identified.

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 may 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 by management. Any excess of progress billings over earned revenue or earned revenue over progress billings on the engineering service contracts, production contracts and longer term remanufacturing contracts is carried as "billings on uncompleted contracts in excess of costs and estimated earnings" and "costs and estimated earnings in excess of billings" respectively in the Consolidated Balance Sheets.

The Company charges any anticipated losses on contracts and units of production to earnings as soon as they are identified. The Company also provides for the estimated cost of product warranties at the time of revenue recognition.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

1. Significant accounting policies (continued):

(h) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on the differences between the financial reporting and the tax basis of assets and liabilities. These differences are then measured using substantially enacted tax rates and laws that will be in effect when these differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income for the period that the change occurs.

(i) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting periods. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, intangible assets, and goodwill; valuation allowances for accounts receivable, inventories, future income taxes, revenue under the percentage of completion method; and the calculation of stock-based compensation. Actual results could differ from those estimates.

(j) Earnings per share:

Basic earnings per common share are calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per common share are calculated using the treasury stock method for determining the dilutive effect of options. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average share outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming the outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the period.

(k) Stock-based compensation plan:

The Company uses the fair value method for calculating stock-based compensation expense. Under this method, compensation expense attributable to stock options granted to employees, directors and service providers, is measured at fair value using the Black-Scholes method to estimate fair value at the grant date and expensed over the vesting period; with a corresponding increase to contributed surplus. Upon the exercise of the option, consideration received, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

(l) Foreign currency translation:

As of December 31, 2008, the Company had one subsidiary in the United States, which is classified as a self-sustaining operation. Assets and liabilities of a self-sustaining foreign operation are translated into Canadian dollars at the exchange rates in effect at the balance sheet date and revenues and expenses are translated into Canadian dollars at average exchange rates for the period. The cumulative unrealized translation gain or loss is included in accumulated other comprehensive income or loss in the Consolidated Statements of Shareholders' Equity.

Transactions of the Company and its subsidiaries originating in foreign currencies are translated at the rates in effect at the time of the transaction. Monetary items denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Foreign exchange gains and losses are included in other income on the Consolidated Statements of Comprehensive Income.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

1. Significant accounting policies (continued):

(m) Asset retirement obligation:

The Company recognizes the fair value of a future asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that results from the acquisition, construction, development, and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is amortized over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the related long-lived asset that is amortized over the remaining life of the asset.

(n) Financial Instruments:

Financial instruments must be classified into one of these five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value depend on their initial classification, as follows: held for trading financial assets are measured at fair value and changes in fair value are recognized in net earnings; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

The Company designated its cash and cash equivalents as held for trading. Long-term investments are designated as available-for-sale. Cash and cash equivalents and long-term investments are measured at fair value. Accounts receivable and due from vendor are classified as loans and receivables, which are measured at amortized cost. Operating loan, accounts payable and accrued liabilities, environmental liability, customer deposits, and long-term debt are classified as other financial liabilities, which are measured at amortized cost. Transaction and financing costs are included in the carrying amount of long-term debt, and are recognized using the effective interest rate method.

The Company does not utilize any financial instruments to manage foreign currency exposures, fluctuation in interest rates and exposures related to the purchase of raw materials.

2. Changes in accounting policies:

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

- (a) *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 the Company's consolidated financial statements. The new disclosures are included in note 4 and note 15 to the Company's consolidated financial statements.
- (b) *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. These new disclosures are included in note 18 to the Company'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. The new disclosures are included in note 19 to the Company's consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

2. Changes in accounting policies (continued):

- (d) *Section 3863 - Financial Instruments - Presentation*, establishes standards for presentation of financial instruments and non-financial 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 new disclosures are included in note 19 to the Company's consolidated financial statements.

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

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) *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 this new standard in the first quarter of 2011 and is currently assessing the impact of adoption on its consolidated financial statements.
- (c) *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 this new standard in the first quarter of 2011 and is currently assessing the impact of adoption on its consolidated financial statements.
- (d) In February 2008, the CICA's Accounting Standard Board announced that Canadian public companies will adopt International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board effective January 1, 2011. The Company has begun planning its transition to IFRS. During 2008, the Company carried out a diagnostic evaluation of all financial statement elements that would be impacted by the implementation of IFRS. The elements that will be impacted the most by the implementation of IFRS are income taxes, capital assets, business combinations and stock based compensation though the Company has not quantified that impact as at December 31, 2008. The impact of the implementation of IFRS on the Company's information systems, internal control over financial reporting, disclosure controls and procedures or business activities such as debt covenants, capital requirements or compensation arrangements have not been determined at this time. The Company plans to fully assess the impact of IFRS on the above noted items and implement such changes as may be required to ensure that IFRS reporting is fully embedded in the Company's operations by the end of 2010.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

3. Acquisition:

On November 14, 2007, the Company acquired substantially all of the business assets and net working capital of Canadian Allied Diesel Co. Ltd., CAD Railway Services Inc., Lachine Rail Centre Inc. and Engine System Development Centre Inc. (together "CAD"), for cash consideration of \$22,000,000. The transaction was financed through \$8,000,000 of on-hand cash, plus financing of \$14,000,000 through the Company's new credit facility as described in note 10. The purchase price was subject to final adjustments based upon the final net working capital value. Under the asset purchase agreement, the vendors placed \$1,500,000 of their sales proceeds into an escrow account which the Company is entitled to claim against to recover the net working capital shortfall. Subsequent to closing, the Company identified a net working capital shortfall of approximately \$1,774,000. The vendors were not in agreement with the amount of the net working capital shortfall. Accordingly, the Company was seeking recovery of this shortfall from the vendors through the arbitration process specified in the asset purchase agreement. An agreement was reached subsequent to year end as described in note 22. As part of its fair value assessment of the CAD acquisition, the Company has adjusted the amount due from vendor to \$1,600,000, representing the amount estimated to be recovered through the arbitration process. The \$174,000 reduction has been accounted for as an increase to goodwill. The net working capital shortfall has been presented as due from vendor on the Consolidated Balance Sheets.

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 and independent, third party valuers.

The allocation of the purchase price to the net assets acquired at their assigned values is as follows:

	2008	2007
Cash and cash equivalents	\$ 720,825	\$ 720,825
Accounts receivable	2,606,101	2,606,101
Inventory	5,775,781	7,905,832
Prepaid expenses	278,271	278,271
Property, plant and equipment	11,940,475	8,299,375
Intangible assets	1,107,000	1,050,000
Future tax asset - long-term	178,500	-
Goodwill	2,604,219	3,028,442
Total assets	25,211,172	23,888,846
Bank loan	(840,000)	(840,000)
Accounts payable and accrued liabilities	(1,917,672)	(1,917,672)
Future tax liability - long-term	(1,010,478)	-
Net assets acquired	21,443,022	21,131,174
Cash consideration paid	(22,000,000)	(22,000,000)
Transaction costs	(1,043,022)	(905,317)
Due from vendor	\$ (1,600,000)	\$ (1,774,143)

4. Inventories:

	2008	2007
Finished goods	\$ 10,673,845	\$ 9,802,339
Work in progress	1,720,646	2,529,845
Raw materials	2,286,872	2,395,474
	\$ 14,681,363	\$ 14,727,658

During the year ended December 31, 2008, the Company expensed \$25,025,000 of inventory, including a net inventory provision of \$112,912 to write-down the value of inventory to net realizable value. There were no inventory write-down reversals during the year.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

5. Costs and estimated earnings on uncompleted contracts:

	2008	2007
Costs and estimated earnings on uncompleted contracts	\$ 8,074,133	\$ -
Less billings to date	(4,619,776)	(1,000,000)
	<u>\$ 3,454,357</u>	<u>\$ (1,000,000)</u>
Costs and estimated earnings on uncompleted contracts in excess of billings	\$ 3,454,357	\$ -
Billings on uncompleted contracts in excess of costs and estimated earnings	-	(1,000,000)
	<u>\$ 3,454,357</u>	<u>\$ (1,000,000)</u>

6. Income taxes:

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

	2008	2007
Earnings (loss) before income taxes	\$ (315,561)	\$ 5,170,025
Expected income tax rate	31.5%	34.0%
Computed expected income tax expense (recovery)	(99,402)	1,757,809
Difference resulting from:		
Non-deductible items	318,947	(102,767)
Non-deductible goodwill impairment charge	872,488	-
U.S. state taxes	133,874	202,285
Withholding taxes on dividends	175,230	-
Other	(40,791)	19,544
Provision for income taxes	<u>\$ 1,360,346</u>	<u>\$ 1,876,871</u>

The expected income tax rate reflects the combined Federal and Provincial income tax rates for manufacturing and processing companies.

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	2008	2007
Future tax assets:		
Financing costs	\$ 25,683	\$ 49,552
Plant and equipment and intangible assets principally due to differences in depreciation and amortization	46,254	62,465
Net operating loss carryforwards	1,646,511	1,080,914
Net capital loss carryforwards	-	154,908
Environmental liability related to land and building	334,801	-
Scientific research and experimental development claims	264,745	-
Other	132,085	36,441
	<u>2,450,079</u>	<u>1,384,280</u>
Valuation allowance	-	(154,908)
	<u>2,450,079</u>	<u>1,229,372</u>
Future tax liabilities:		
Management contract payments	(1,290,321)	(1,137,674)
Plant and equipment and intangible assets principally due to differences in depreciation and amortization	(2,020,173)	(578,281)
Scientific research and experimental development claims	(90,197)	-
Other	(37,166)	-
	<u>(3,437,857)</u>	<u>(1,715,955)</u>
Net future income tax liability	<u>\$ (987,778)</u>	<u>\$ (486,583)</u>

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

6. Income taxes (continued):

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

	2008	2007
Current assets	\$ 126,250	\$ 272,578
Long-term assets	2,323,829	956,794
Current liabilities	(90,197)	-
Long-term liabilities	(3,347,660)	(1,715,955)
	\$ (987,778)	\$ (486,583)

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the temporary differences are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. Accordingly, a valuation allowance of \$154,908 which was previously recorded against the future tax benefit of the capital losses has been reversed. The Company has non-capital losses of approximately \$5,815,000 which can be carried forward to reduce future Canadian taxable income. The losses will expire in 2010 to 2028.

7. Property, plant and equipment:

December 31, 2008	Cost	Accumulated amortization	Net book value
Land	\$ 4,691,959	\$ -	\$ 4,691,959
Buildings	8,856,195	401,685	8,454,510
Machinery and equipment	12,630,109	2,720,631	9,909,478
Building improvements	491,133	42,904	448,229
Computers	1,027,610	657,575	370,035
Vehicles	110,666	99,264	11,402
Furniture	362,034	177,546	184,488
Leasehold improvements	104,488	104,488	-
Construction in progress	98,417	-	98,417
	\$ 28,372,611	\$ 4,204,093	\$ 24,168,518

December 31, 2007	Cost	Accumulated amortization	Net book value
Land	\$ 346,078	\$ -	\$ 346,078
Buildings	6,973,322	170,658	6,802,664
Machinery and equipment	6,315,943	1,746,991	4,568,952
Building improvements	89,422	1,118	88,304
Computers	903,059	462,741	440,318
Vehicles	140,423	92,297	48,126
Furniture	277,332	134,371	142,961
Leasehold improvements	104,488	104,488	-
Construction in progress	-	-	-
	\$ 15,150,067	\$ 2,712,664	\$ 12,437,403

8. Intangible assets:

December 31, 2008	Cost	Accumulated amortization	Net book value
Customer relationships	\$ 380,000	\$ 42,750	\$ 337,250
Trade names and trademarks	230,000	51,750	178,250
Non-compete agreements	210,000	47,250	162,750
Option to purchase land and building	179,375	179,375	-
	\$ 999,375	\$ 321,125	\$ 678,250

December 31, 2007	Cost	Accumulated amortization	Net book value
Customer relationships, trade names and trademarks	\$ 1,050,000	\$ 13,125	\$ 1,036,875

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

9. Goodwill:

CICA Handbook section 3062 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. During the current year, the Company completed its annual impairment test whereby the Company estimated the fair value of each reporting segment and compared it to the segment's book value. The fair values of the Track & Signal and Instrumentation segments were greater than their respective carrying values, indicating goodwill was not impaired for these two segments. The estimated fair value for the Locomotive segment was lower than its carrying value, indicating a potential impairment, which required the Company to perform an additional analysis.

Based on this analysis it was determined that the recorded value of goodwill exceeded the fair value and a non-cash write-down of \$2,769,802 was required for goodwill recorded in 2002 related to the Locomotive segment. The primary contributing factor to the impairment of goodwill was lower operating results in the Locomotive segment driven by the decrease in demand for railcar metal fabrication services.

10. Credit facilities:

On November 6, 2007, the Company entered into a Credit Agreement shared between two Canadian banks (the "Lenders"). The aggregate maximum amount of the credit facilities under the Credit Agreement is \$34,100,000 and is comprised of: (i) a demand revolving operating facility in the principal amount of \$10,000,000, subject to borrowing base requirements, the proceeds of which are to be used to finance ongoing operating and working capital requirements; (ii) a five year revolving, reducing, term loan in the principal amount of \$22,000,000 to finance the CAD acquisition, working capital, capital expenditures and other acquisitions; (iii) a hedge facility in the maximum aggregate amount of \$2,000,000 to enable the Company to incur interest rate related risk and foreign exchange related risk under hedge contracts between the Company and the Lenders; and (iv) a credit card facility in the aggregate maximum amount of \$100,000. Under certain conditions, the Company is able to increase the amount of the term facility by up to \$8,000,000.

On December 16, 2008, the borrowing rates and a certain compliance covenant within the Company's Credit Agreement were amended.

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 term facility is committed for five years. The operating facility is subject to annual review and renewal by the Lenders.

The demand revolving operating facility bears interest at a floating rate between 0.50% and 0.75% (2007 - between nil and 0.25%) over the Canadian bank prime lending rate, or between 1.5% and 2.0% (2007 - between 1.0% and 1.5%) over the applicable bankers acceptance rate, depending upon the Company's ratio of funded debt to earnings before interest, income taxes, depreciation and amortization.

The five year revolving, reducing, term loan facility bears interest at a floating rate between 0.5% and 1.0% (2007 - between nil and 0.5%) over the Canadian bank prime lending rate, or between 1.75% and 2.25% (2007 - between 1.25% and 1.75%) over the applicable bankers acceptance rate, depending upon the Company's ratio of funded debt to earnings before interest, income taxes, depreciation and amortization, and is subject to a standby fee on the undrawn portion of the facility. The principal amount available under the term facility is reduced by an amount equal to \$770,000 on the first day of each calendar quarter commencing on April 1, 2008 and continuing thereafter until November 13, 2012. Each quarter, the Company must repay any amount of outstanding principal which exceeds the adjusted available amount on the term facility.

At December 31, 2008, transaction and financing costs in the amount of approximately \$462,000 (2007 - \$560,000) are included in the carrying amount of the amount outstanding under the term facility, and are recognized using the effective interest rate method.

The Company has issued an irrevocable standby letter of credit in the amount of \$1,000,000 as security against a customer's contractual prepayments. This standby letter of credit constitutes a borrowing under the Company's operating facility.

During the second quarter of 2008, a waiver was granted by the Lenders allowing the Company to exceed the 2008 capital expenditure cap set forth under the Credit Agreement.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

10. Credit facilities (continued):

As at December 31, 2008, the Company was not in compliance with the Funded Debt to EBITDA covenant included in the Credit Agreement. As at December 31, 2008, the Company had a Funded Debt to EBITDA ratio of 3.52 while the Credit Agreement required a ratio of no greater than 3.50. On March 30, 2009, the Lenders agreed to waive the covenant breach at December 31, 2008 and forbear from exercising its rights with respect to this breach under the Credit Agreement. The Lenders have not altered the terms and conditions of the credit facility. Based on its 2009 projections, the Company expects further breaches of this covenant during 2009 that may result in the termination of the term facility by the Lenders. Company management is in discussions with the Lenders to amend the Funded Debt to EBITDA covenant; however these discussions, and any resulting amendments to the covenant, will not likely be completed until the second quarter of 2009. Since there is a risk that the term facility may be terminated within one year, the Company has classified \$16,610,000 of long-term debt not scheduled to be repaid in 2009 as a current liability on the Consolidated Balance Sheets. There is no assurance the Lenders will grant these amendments or provide waivers for future covenant violations should they occur. If future covenant violations were to occur, the Lenders could restrict access to funds under the Credit Agreement or terminate the Agreement. There is no assurance that the Company would be able to obtain funding from alternative sources.

The balances outstanding under the Company's credit facilities are as follows:

	2008	2007
Operating facility	\$ 2,300,000	\$ 100,000
Term facility - current portion	\$ 18,500,000	\$ -
Term facility - long-term portion	\$ -	\$ 14,000,000
Hedge facility	\$ -	\$ -
Credit card facility	\$ -	\$ -

11. Acquisition of CADRI 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 of the land and building was \$3,510,000. At the time the purchase option was being negotiated, the land and building had an appraised fair market value of \$5,200,000. It was also 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 \$1,312,000. 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 \$1,312,000 has been recorded on the Company's Consolidated Balance Sheets, 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 2008, the Company has charged \$72,000 against the environmental reserve. The carrying value of the land and building value has been increased by \$107,625, representing the unamortized intangible asset value relating to the option to purchase as at the date of the acquisition, and by \$93,106 of transaction costs.

12. Share capital:

(a) Common and preferred shares:

The authorized share capital of the Company consists of an unlimited number of voting common shares, and an unlimited number of preferred shares. Preferred shares may be issued in one or more series, each consisting of a number of preferred shares, as determined by the Board of Directors who also may fix the designations, rights, privileges, restrictions and conditions attaching to the shares of each series of preferred shares. At December 31, 2008, the Company had issued 15,239,900 common shares (2007 - 15,137,400) and had not issued any preferred shares.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

12. Share capital (continued):

(b) Stock options:

The Company has granted share options to officers, directors, employees and service providers to purchase common shares. The options have a maximum term of ten years and vest over periods of up to three years from the date of grant. Changes in the number of options outstanding, with their weighted average exercise prices, are summarized below:

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Opening balance	1,474,344	\$ 3.48	1,105,000	\$ 2.70
Granted	225,000	1.81	655,000	4.46
Exercised	(102,500)	1.94	(205,656)	2.45
Cancelled or expired	(85,000)	4.09	(80,000)	3.46
Ending balance	1,511,844	\$ 3.30	1,474,344	\$ 3.48

At December 31, 2008, the stock options granted to officers, directors, employees and service providers to purchase common shares expire in the months noted as follows:

December 31, 2008	Number of options	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
January 2009	60,000	\$ 4.40	60,000	\$ 4.40
June 2010	30,000	3.70	30,000	3.70
November 2010	85,000	1.30	85,000	1.30
January 2011	159,902	2.00	159,902	2.00
August 2011	1,942	3.10	1,942	3.10
November 2012	50,000	4.35	25,000	4.35
December 2012	175,000	4.59	98,332	4.59
March 2013	50,000	4.25	-	-
June 2013	22,500	3.82	-	-
December 2013	152,500	0.72	-	-
August 2014	140,000	4.90	40,000	4.90
November 2014	210,000	4.35	70,000	4.35
November 2015	100,000	2.84	100,000	2.84
December 2016	225,000	3.12	225,000	3.12
April 2017	50,000	3.30	25,000	3.30
Total	1,511,844	\$ 3.30	920,176	\$ 3.20

At December 31, 2007, the stock options granted to officers, directors, employees and service providers to purchase common shares expire in the months noted as follows:

December 31, 2007	Number of options	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
January 2008	7,500	\$ 2.00	7,500	\$ 2.00
January 2009	90,000	4.40	90,000	4.40
June 2010	30,000	3.70	20,000	3.70
November 2010	90,000	1.30	90,000	1.30
December 2010	50,000	1.95	50,000	1.95
January 2011	199,902	2.00	199,902	2.00
August 2011	1,942	3.10	1,942	3.10
November 2012	50,000	4.35	-	-
December 2012	205,000	4.59	-	-
August 2014	140,000	4.90	20,000	4.90
November 2014	210,000	4.35	-	-
November 2015	100,000	2.84	50,000	2.84
December 2016	250,000	3.12	187,500	3.12
April 2017	50,000	3.30	-	-
Total	1,474,344	\$ 3.48	716,844	\$ 2.69

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

12. Share capital (continued):

- (b) Stock options:

Fair value disclosures

The fair value of each stock option grant on the date of the grant, which is used to determine stock-based compensation expense, was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2008	2007
Expected option life (years)	3.50	4.52
Risk-free interest rate	2.69%	4.19%
Expected stock price volatility	67%	58%
Expected annual dividends per share	\$ -	\$ -

The average fair value of options granted during 2008 was \$0.86 per option (2007 - \$2.23 per option).

13. Commitments:

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

2009	\$ 254,132
2010	\$ 101,570
2011	\$ 64,550
2012	\$ 22,945
2013	\$ 8,642

The Company is committed to payments under fixed price purchase contracts for the purchase of materials as follows:

2009	\$ 9,884,890
2010	\$ 9,049,546
2011	\$ 11,628,561
2012	\$ 3,800,211

These contracts contain clauses that allow the Company to renegotiate the purchase commitments in the event there is a material change to the underlying sales contract. Included in the above are purchase commitments totaling \$11,472,000 with a company owned by the interim President of CADRI.

14. Contingencies:

- (a) The Company is a party to executive employment contracts, each requiring payment of a certain amount to an executive upon a change of control and the occurrence of an event that constitutes constructive dismissal of that executive within twelve months of the change of control. This would result in a total additional expense of up to approximately USD \$1,703,000 for all executive employment contracts.
- (b) The Company has issued a guarantee in the form of an irrevocable standby letter of credit, in the amount of \$1,000,000 as security against a customer's contractual prepayments. Upon written demand, the customer is able to draw partially, or in full, upon this guarantee. The guarantee expires on December 10, 2009, but is automatically renewable for an additional period of one year.
- (c) 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. As at December 31, 2008, the Company's potential liability under indemnification commitments is \$9,000,000 (2007 - \$5,000,000). Historically, the Company has not made any payments under such indemnifications and accordingly, as of December 31, 2008, no amount has been accrued in the consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

15. Amortization:

	2008	2007
Amortization of property, plant and equipment and intangible assets	1,562,019	645,934
Adjustment for the variation of amortization of property, plant and equipment included in inventories	(141,784)	-
Amortization included in the consolidated statements of comprehensive income	1,420,235	645,934
Consists of:		
Amortization of production property, plant and equipment	921,083	525,110
Amortization of non-production property, plant and equipment and intangible assets	499,152	120,824
Amortization included in the consolidated statements of comprehensive income	1,420,235	645,934

16. Earnings per share:

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

	2008	2007
Weighted average number of common shares outstanding:		
Basic	15,200,672	14,960,278
Effect of stock options	128,822	267,804
Diluted	15,329,494	15,228,082

17. Related party transactions:

- During the year ended December 31, 2008, CADRI paid approximately \$332,000 for management services provided by a company owned by the interim President of CADRI (2007 - \$33,000). During the year ending December 31, 2007, transaction costs of approximately \$710,000 relating to the CAD acquisition (note 3) and the credit facilities (note 10) were also paid to this company (2008 - \$nil).
- In the normal course of business, CADRI purchased approximately US \$1,751,000 of inventory from a company owned by the interim President of CADRI during the year ended December 31, 2008 (2007 - \$18,000). These inventory purchases were made under terms and conditions comparable to those of CADRI's other inventory purchases, and are recorded at the exchange amount being the amounts agreed to by the two parties.

18. Capital risk management:

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to provide competitive returns to its shareholders. The Company defines capital that it manages as the aggregate of its shareholders' equity, which is comprised of issued capital, contributed surplus, accumulated other comprehensive loss and retained earnings.

The Company manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue or repay long-term debt or issue shares, or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets. The Company monitors debt leverage ratios as part of the management of liquidity and shareholders' return and to support future development of the business.

Under the Credit Agreement with its Lenders, the Company is obligated to comply with certain financial covenants and margin requirements. As at December 31, 2008, the Company was not in compliance with the Funded Debt to EBITDA covenant included in the Credit Agreement. On March 30, 2009, the Company's Lenders agreed to waive the covenant breach at December 31, 2008 and forbear from exercising its rights with respect to this breach under the Credit Agreement. During the second quarter of 2008, a waiver was granted by the Lenders allowing the Company to exceed the 2008 capital expenditure cap set forth under the Credit Agreement.

The Company's overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2007.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

19. Financial instruments and financial risk management:

(a) Financial instruments:

The carrying values of the Company's financial assets and liabilities, consisting of cash and cash equivalents, accounts receivable, due from vendor, operating loan, current portion of long-term debt, accounts payable and accrued liabilities, environmental liability, and customer deposits, approximate their fair values due to the relatively short periods to maturity of the instruments. The carrying value of the floating rate long-term debt is assumed to approximate its fair value as interest is based on market related variable rates.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The classification and fair values of the Company's financial instruments are as follows:

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets held for trading:				
Cash and cash equivalents	\$ 495,722	\$ 495,722	\$ 894,458	\$ 894,458
Loans and receivables:				
Accounts receivable	\$ 12,728,970	\$ 12,728,970	\$ 11,521,362	\$ 11,521,362
Due from vendor	\$ 1,536,000	\$ 1,536,000	\$ 1,774,143	\$ 1,774,143
Other financial liabilities:				
Accounts payable and accrued liabilities	\$ 10,541,571	\$ 10,541,571	\$ 6,291,453	\$ 6,291,453
Customer deposits	\$ 1,000,000	\$ 1,000,000	\$ 2,000,000	\$ 2,000,000
Environmental liability	\$ 1,240,004	\$ 1,240,004	\$ -	\$ -
Operating loan	\$ 2,300,000	\$ 2,300,000	\$ 100,000	\$ 100,000
Long-term debt	\$ 18,037,924	\$ 18,500,000	\$ 13,439,705	\$ 14,000,000

At December 31, 2008, transaction and financing costs in the amount of approximately \$462,000 (2007 - \$560,000) are included in the carrying amount of the amount outstanding under the term facility, and are recognized using the effective interest rate method.

At December 31, 2008, all of the Company's financial instruments were recorded on the Consolidated Balance Sheets at amortized cost with the exception of cash and cash equivalents which were recorded at fair value. The Company did not have any available for sale or held to maturity financial instruments during the year ended December 31, 2008 or during the year ended December 31, 2007.

(b) Financial risk management:

The Company has exposure to credit risk, market risk and liquidity risk. The Company's primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis. Risk management strategies, as discussed below, are designed and implemented to ensure the Company's risks and the related exposure are consistent with the business objectives and risk tolerance.

(i) Credit risk:

Credit risk represents the financial loss that the Company would experience if a counterparty to a financial instrument held by the Company failed to meet its obligations in accordance with the terms and conditions of its contracts with the Company or if there is a concentration of transactions carried out with the same counterparty. The carrying amount of financial assets represents the maximum credit exposure.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

19. Financial instruments and financial risk management (continued):

(b) Financial risk management (continued):

(i) Credit risk (continued):

The Company's credit risk is primarily attributable to its accounts receivable. The amounts disclosed in the Consolidated Balance Sheets are net of allowances for doubtful accounts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company establishes an allowance for doubtful accounts that represents its estimate of expected losses in respect of accounts receivable. The main component of this allowance relates to individually significant exposures for accounts receivable that are considered impaired, which is defined as amounts outstanding beyond normal credit terms and conditions for the respective customers and, based upon management's evaluation, a risk of non-payment exists.

The Company believes that the concentration of credit risk of accounts receivable is limited due to its broad customer base, primarily consisting of large North American companies in the railway industry with good credit standing.

The Company believes that its allowance for doubtful accounts is sufficient to reflect the related credit risk, indicated as follows:

	2008	2007
Neither impaired nor past due	\$ 6,636,949	\$ 8,028,257
Impaired	306,692	290,212
Not impaired and past due in the following periods:		
Within 30 days	2,225,008	1,992,087
31 to 60 days	897,818	921,461
61 to 90 days	464,287	250,262
Over 90 days	1,529,881	150,452
Allowance for doubtful accounts	(306,692)	(290,212)
Trade receivables	11,753,943	11,342,519
Other receivables	975,027	178,843
Total accounts receivable	\$ 12,728,970	\$ 11,521,362

During the year ended December 31, 2008, the Company charged \$205,378 to allowance for doubtful accounts (2007 - \$3,678). Also during the year ended December 31, 2008, the Company increased allowance for doubtful accounts in the amount of \$221,858 with an offset to general and administration expense (2007 - \$35,150), and recorded interest income in the amount of \$nil on its impaired accounts receivables (2007 - \$nil).

(ii) Market risk:

Market risk is the risk of loss that may arise from changes in market prices, such as foreign exchange rates and interest rates, which will affect the Company's income or the value of its financial instruments.

The Company is exposed to financial risk that arises from the interest rate differentials between the market interest rate and the rates on its cash and cash equivalents, operating loan and long-term debt. Changes in variable interest rates could cause unanticipated fluctuations in the Company's operating results. As at December 31, 2008, a 100 basis point change in the Bank of Canada prime lending rate would result in a change in the Company's net earnings (loss) of approximately \$142,000.

The Company has a substantial number of transactions denominated in United States dollars and is exposed to risk with respect to fluctuations in exchange rates between Canadian and United States dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. As a result, variations in foreign exchange rates could cause unanticipated fluctuations in the Company's operating results. As at December 31, 2008, a 1% strengthening of the United States dollar against the Canadian dollar would result in an increase in the Company's net earnings (loss) of approximately \$140,000, and an increase in other comprehensive income of \$81,000.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

19. Financial instruments and financial risk management (continued):

(b) Financial risk management (continued):

(iii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 18. It also manages liquidity risk by continuously monitoring cash flows to ensure that it will always have sufficient liquidity to meet its liabilities when due. At December 31, 2008, the undrawn portion of the Company's bank credit facility was \$7,890,000 subject to meeting agreed to covenants. Utilizations of the credit facility include advances borrowed under the bank credit facility and issuances of letters of credit.

At December 31, 2008, the Company was not in compliance with a Funded Debt to EBITDA covenant under its Credit Agreement. Subsequent to the year end, the Company requested a waiver of the non-compliance. The Company's Lenders have issued the waiver of non-compliance. The Company is likely not to be in compliance with this covenant during 2009 and accordingly is in discussions with the Lenders to amend this covenant. The Company's ability to continue as a going concern will be dependent upon the ongoing support of its Lenders in providing the necessary financing arrangements and the generation of profitable operating results. While the Company is focusing its efforts on these matters, there are no assurances that these initiatives will be successful.

The following are the contractual maturities, excluding interest payments, reflecting undiscounted future cash disbursements of the Company's financial liabilities at December 31, 2008:

	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 10,541,571	\$ -	\$ -	\$ -
Purchase commitments	-	-	-	-
Operating loan	2,300,000	-	-	-
Term loan	18,500,000	-	-	-
	\$ 31,341,571	\$ -	\$ -	\$ -

20. Segmented information:

The Company's operations are conducted through three reportable business segments: track and signal which is primarily the manufacture of track signal layouts and railgear, instrumentation which is primarily the manufacture of event recorders; and locomotive which is primarily the remanufacture and repair of locomotives and railcars. Management evaluates each business segment's performance based upon revenues less direct cost of sales, salaries and general and administrative expenses.

Revenues and segment profit:

Year ended December 31, 2008	Track and signal	Instrumentation	Locomotive	Corporate	Consolidated
Revenues	\$ 20,972,943	\$ 6,749,443	\$ 34,044,880	\$ -	\$ 61,767,266
Direct cost of sales, salaries and general and administrative expenses	15,776,005	5,159,435	33,095,067	4,153,241	58,183,748
	5,196,938	1,590,008	949,813	(4,153,241)	3,583,518
Depreciation and amortization	49,730	29,058	350,394	69,970	499,152
Interest expense	21,613	(686)	19,228	942,152	982,307
Goodwill impairment	-	-	2,769,802	-	2,769,802
Other, net	(82,326)	(180,669)	(319,169)	229,982	(352,182)
Earnings (loss) before income taxes	\$ 5,207,921	\$ 1,742,305	\$ (1,870,442)	\$ (5,395,345)	\$ (315,561)

Year ended December 31, 2007	Track and signal	Instrumentation	Locomotive	Corporate	Consolidated
Revenues	\$ 24,239,400	\$ 6,226,144	\$ 6,347,142	\$ -	\$ 36,812,686
Direct cost of sales, salaries and general and administrative expenses	17,058,957	4,711,632	5,758,181	3,786,248	31,315,018
	7,180,443	1,514,512	588,961	(3,786,248)	5,497,668
Depreciation and amortization	388,637	23,888	214,967	18,442	645,934
Interest expense	(39,215)	3,038	21,110	(237,450)	(252,517)
Other, net	(19,144)	97,148	(19,082)	(124,696)	(65,774)
Earnings (loss) before income taxes	\$ 6,850,165	\$ 1,390,438	\$ 371,966	\$ (3,442,544)	\$ 5,170,025

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

20. Segmented information (continued):

Other segment reporting:

December 31, 2008	Track and signal	Instrumentation	Locomotive	Corporate	Consolidated
Assets	\$ 21,027,626	\$ 3,327,538	\$ 44,944,127	\$ 3,094,192	\$ 72,393,483
Goodwill	\$ 8,194,136	\$ 785,893	\$ 2,587,603	\$ -	\$ 11,567,632
Capital expenditures for the year ended	\$ 808,022	\$ 49,332	\$ 6,207,725	\$ -	\$ 7,065,079

December 31, 2007	Track and signal	Instrumentation	Locomotive	Corporate	Consolidated
Assets	\$ 11,012,176	\$ 2,102,060	\$ 31,300,107	\$ 14,157,348	\$ 58,571,691
Goodwill	\$ 8,194,136	\$ 785,893	\$ 5,798,244	\$ -	\$ 14,778,273
Capital expenditures for the year ended	\$ 678,909	\$ 130,356	\$ 293,831	\$ -	\$ 1,103,096

The following is a summary of the Company's sales, property, plant and equipment, intangible assets, and goodwill, by geographic segment:

	International	United States	Canada	2008
Sales	\$ 2,997,492	\$ 29,863,844	\$ 28,905,930	\$ 61,767,266
Property, plant and equipment	\$ -	\$ 4,800,257	\$ 19,368,261	\$ 24,168,518
Intangible assets	\$ -	\$ -	\$ 678,250	\$ 678,250
Goodwill	\$ -	\$ 8,194,136	\$ 3,373,496	\$ 11,567,632

	International	United States	Canada	2007
Sales	\$ 689,851	\$ 26,078,612	\$ 10,044,223	\$ 36,812,686
Property, plant and equipment	\$ -	\$ 3,580,119	\$ 8,857,284	\$ 12,437,403
Intangible assets	\$ -	\$ -	\$ 1,036,875	\$ 1,036,875
Goodwill	\$ -	\$ 8,194,136	\$ 6,584,137	\$ 14,778,273

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2008 and 2007

21. Comparative figures:

Certain of the 2007 comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

22. Subsequent events:

On March 23, 2009, the Company settled the dispute with the vendors over the net working capital shortfall realized on the acquisition of CAD described in note 3. Under the settlement arrangement, the Company will receive \$1,500,000 plus interest of \$36,000, and the Escrow Agreement has been terminated. This settlement results in a reduction of the cash consideration paid to acquire CAD to \$20,500,000. A write-down in the amount of \$64,000, representing the difference between the settlement proceeds and the amount due to vendor, has been recorded on the Consolidated Statements of Comprehensive Income.

On March 26, 2000, the Company settled a trade dispute with a company owned by one of the CAD vendors concerning collection of a trade receivable of approximately \$1,240,000. Under the settlement arrangement, the Company will offset approximately \$220,000 of its trade payables owing to the company, receive non-cash assets valued at approximately \$580,000, plus receive a minimum of \$200,000 in cash which has been personally guaranteed by the company owner. The shortfall amount of approximately \$200,000 has been recorded as a bad debt expense on the Consolidated Statements of Comprehensive Income.