

Consolidated Financial Statements of

**GLOBAL RAILWAY INDUSTRIES LTD.**

Years ended December 31, 2006 and 2005



**KPMG LLP**  
**Chartered Accountants**  
140 Fullarton Street Suite 1400  
PO Box 2305  
London ON N6A 5P2  
Canada

Telephone (519) 672-4880  
Fax (519) 672-5684  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Global Railway Industries Ltd. as at December 31, 2006 and 2005 and the consolidated statements of earnings (loss) and retained earnings, 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, 2006 and 2005 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

London, Canada

February 16, 2007

# GLOBAL RAILWAY INDUSTRIES LTD.

## Consolidated Balance Sheets

December 31, 2006 and 2005

	2006	2005
<b>Assets</b>		
Current assets:		
Cash	\$ 6,830,949	\$ 564,237
Accounts receivable	3,411,310	3,835,534
Inventories (note 2)	7,055,368	7,286,468
Prepaid assets	214,625	95,315
Income taxes recoverable	-	210,864
Future income taxes (note 3)	1,065,283	2,742,639
Assets of discontinued operations (note 4)	-	9,310,574
	18,577,535	24,045,631
Other assets	-	79,799
Property, plant and equipment (note 5)	4,233,435	3,902,982
Future income taxes (note 3)	686,339	718,372
Goodwill (note 6)	11,749,831	11,668,378
	\$ 35,247,140	\$ 40,415,162
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Operating loan (note 7)	\$ -	\$ 1,836,366
Accounts payable and accrued liabilities	2,143,323	2,245,941
Income taxes payable	245,774	-
Current portion of long-term debt (note 8)	-	3,426,342
Future income taxes (note 3)	-	429,813
Liabilities of discontinued operations (note 4)	-	3,812,004
	2,389,097	11,750,466
Future income taxes (note 3)	1,545,866	1,192,940
Shareholders' equity:		
Share capital (note 9)	25,326,185	25,068,800
Contributed surplus (note 10)	979,502	649,299
Cumulative translation adjustment	(1,409,696)	(1,495,269)
Retained earnings	6,416,186	3,248,926
	31,312,177	27,471,756
Commitments (note 15)		
	\$ 35,247,140	\$ 40,415,162

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Phillip Ogden "signed" Director

Terry McManaman "signed" Director

# GLOBAL RAILWAY INDUSTRIES LTD.

## Consolidated Statements of Earnings (Loss) and Retained Earnings

Years ended December 31, 2006 and 2005

	2006	2005
Sales	\$ 31,883,903	\$ 29,881,306
Cost of goods sold	19,364,810	18,913,705
	12,519,093	10,967,601
Operating expenses:		
Salaries	3,811,009	4,011,914
General and administration	2,537,505	2,776,656
	6,348,514	6,788,570
Other expenses (income):		
Amortization	498,424	549,830
Interest – net	(70,690)	521,536
Foreign exchange gain	(91,021)	(550,167)
Plant closure costs (note 11)	-	1,000,723
	336,713	1,521,922
Earnings before income taxes from continuing operations	5,833,866	2,657,109
Income taxes (note 3):		
Current	324,693	221,880
Future	1,882,332	645,174
	2,207,025	867,054
Net earnings from continuing operations	3,626,841	1,790,055
Net loss from discontinued operations (note 4)	(459,581)	(5,508,387)
Net earnings (loss)	3,167,260	(3,718,332)
Retained earnings, beginning of year	3,248,926	6,967,258
Retained earnings, end of year	\$ 6,416,186	\$ 3,248,926
Earnings per share from continuing operations (note 12)		
Basic	\$ 0.24	\$ 0.12
Diluted	\$ 0.24	\$ 0.12
Earnings (loss) per share		
Basic	\$ 0.21	\$ (0.26)
Diluted	\$ 0.21	\$ (0.26)

See accompanying notes to consolidated financial statements.

# GLOBAL RAILWAY INDUSTRIES LTD.

## Consolidated Statements of Cash Flows

Years ended December 31, 2006 and 2005

	2006	2005
Cash flows from (used in):		
Operating activities:		
Net earnings from continuing operations	\$ 3,626,841	\$ 1,790,055
Items not involving cash:		
Amortization of plant and equipment	498,424	549,830
Stock based compensation expense	400,088	192,814
Future income tax provision	1,882,332	645,174
Changes in non-cash operating working capital:		
Accounts receivable	424,224	(214,236)
Inventories	231,100	(97,454)
Prepaid assets	(119,310)	196,745
Income taxes recoverable	210,864	(210,864)
Accounts payable and accrued liabilities	(102,618)	850,796
Income taxes payable	245,774	-
Foreign currency change on working capital balances	72,497	(176,999)
	7,370,216	3,525,861
Investing activities:		
Purchase of property, plant and equipment	(828,877)	(1,181,301)
Other assets	79,799	11,246
Acquisition (note 6)	(81,453)	(357,081)
	(830,531)	(1,527,136)
Financing activities:		
Issuance of share capital	187,500	1,952,000
Change in operating loan	(1,836,366)	1,497,102
Repayment of long-term debt	(3,426,342)	(1,744,753)
	(5,075,208)	1,704,349
Increase in cash from continuing operations	1,464,477	3,703,074
Cash provided by (used in) discontinued operations (note 4)	4,802,235	(4,139,818)
Increase (decrease) in cash	6,266,712	(436,744)
Cash, beginning of year	564,237	1,000,981
Cash, end of year	\$ 6,830,949	\$ 564,237
Supplementary information:		
Interest paid	\$ 7,147	\$ 529,901
Income taxes paid	\$ 46,048	\$ 231,916

See accompanying notes to consolidated financial statements.

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2006 and 2005

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Global Railway Industries Ltd. designs, manufactures, and markets railway maintenance products, equipment and services to the railway industry. The Company is listed under the symbol "GBI" on the Toronto Stock Exchange.

## 1. Significant accounting policies

### (a) Basis of presentation

The 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"), Prime Steel Inc. ("Prime"), and YSD Holdings (2004), Inc. and its wholly owned subsidiaries, G&B Specialties, Inc. ("G&B") and YSD Industries (2004), Inc. ("YSD"). In 2006, Transportation Technologies Inc. ("TTI"), and its wholly owned subsidiary Rafna Industries Ltd. ("Rafna"), were amalgamated with Bach. All significant intercompany transactions and balances have been eliminated upon consolidation.

### (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 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 using the following methods and annual rates:

Asset	Basis	Rate
Machinery	Straight-line	8.3% - 20%
Computers	Straight-line	20% - 33%
Vehicles	Straight-line	20%
Furniture	Straight-line	10% - 33%
Buildings	Straight-line	2.5% - 5%

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### (d) Deferred development costs

Expenditures incurred by YSD, net of related revenues, during the 2004 pre-operating period were deferred and were being amortized on a straight-line basis over five years. In 2005, this operation was closed (note 4) and the deferred development costs were written off.

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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## 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 to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and 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 in the statement of earnings before extraordinary items and discontinued operations.

### (f) Impairment of long-lived assets

Long-lived assets, including property, plant and equipment, 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 sheet 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 classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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## 1. Significant accounting policies (continued):

### (g) Revenue recognition

The Company ships only 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. Revenues for engineering service contracts are recognized as contractual obligations are met.

### (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 accounting principles generally accepted in Canada requires management to make estimates and assumptions that affect the reported amount 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 period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment and goodwill, and valuation allowances for accounts receivable, inventories and future income taxes. Actual results could differ from these estimates.

### (j) Earnings per share

Basic earnings per common share are calculated using the weighted average number of common shares outstanding during the year. 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 shares 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 that 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 year.

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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## 1. Significant accounting policies (continued):

### (k) Stock based compensation plan

The Company uses the fair value method for calculating stock based compensation cost. Under this method, compensation cost attributable to stock options granted to employees and directors is measured at fair value using the Black-Scholes method to estimate fair value at the grant date and expensed over the vesting period, with a corresponding increase to contributed surplus. Upon the exercise of 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, 2006, 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 year. Translation adjustments are reflected in the cumulative translation adjustment in shareholders' equity.

With the closure of the YSD operations in 2005, the portion of the cumulative translation adjustment relating to YSD was expensed as part of discontinued operations (note 4).

Monetary items denominated in foreign currency of a foreign operation, which is integrated in nature, are translated into Canadian dollars using the year-end exchange rate. Non-monetary balance sheet items are translated into Canadian dollars at historical exchange rates. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in the Statement of Earnings (Loss).

## 2. Inventories:

	2006	2005
Finished goods	\$ 4,067,619	\$ 3,909,965
Work in progress	1,325,814	1,369,598
Raw materials	1,661,935	2,006,905
	<u>\$ 7,055,368</u>	<u>\$ 7,286,468</u>

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

### 3. 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:

	2006	2005
Continuing operations:		
Earnings before income taxes	\$ 5,833,866	\$ 2,657,109
Expected income tax rate	34%	34%
Computed expected income tax expense	1,983,514	903,417
Difference resulting from:		
Non-taxable foreign exchange gain	-	(88,986)
Non-deductible items	31,556	5,109
U.S. state tax	211,496	-
Adjustments to prior year tax return	(69,539)	-
Tax rate differential	20,688	21,170
Provincial minimum tax and capital tax	29,310	26,344
Provision for income taxes	\$ 2,207,025	\$ 867,054

	2006	2005
Discontinued operations:		
Loss before income taxes	\$ (696,335)	\$ (7,779,875)
Expected income tax rate	34%	34%
Computed expected income tax recovery	(236,754)	(2,645,158)
Difference resulting from:		
Non-deductible items	-	373,670
Future income tax recovery	\$ (236,754)	\$ (2,271,488)

The expected income tax rate reflects a combined Federal (Canada and United States), Provincial (Alberta, Quebec and Ontario) and Pennsylvania State income tax rate for manufacturing and processing companies.

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

### 3. Income taxes (continued):

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, 2006 and 2005 are presented below:

	2006	2005
Future tax assets:		
Financing costs	\$ 189,213	\$ 328,560
Net operating loss carryforwards	1,465,297	3,057,966
Other	42,875	5,626
	1,697,385	3,392,152
Future tax liabilities:		
Foreign currency debt	-	213,254
Management contract payments	1,338,630	1,010,652
Property, plant and equipment and intangible assets principally due to differences in depreciation and amortization	152,999	111,371
Deferred income for tax purposes	-	218,617
	1,491,629	1,553,894
Net future income tax asset	\$ 205,756	\$ 1,838,258

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

	2006	2005
Current assets	\$ 1,065,283	\$ 2,742,639
Long-term assets	686,339	718,372
Current liabilities	-	(429,813)
Long-term liabilities	(1,545,866)	(1,192,940)
	\$ 205,756	\$ 1,838,258

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the future tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

The parent company has non-capital losses of \$944,000, which can be carried forward to reduce further Canadian taxable income. The losses will expire in 2008 to 2016. A U.S. subsidiary has non-capital losses of approximately USD \$2,578,000 which can be carried forward to reduce future U.S. taxable income. The losses will expire in 2025.

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 4. Discontinued operations:

In October 2005, the Company announced the close of the operation of YSD. In December 2005, the Company announced the sale of the YSD land and buildings in Youngstown, Ohio for USD \$1,250,000 on an "as is" basis, with no representations or warranties by the Company, and ceased active operations. In 2006, the Company sold all remaining assets of YSD. In the first quarter of 2006, an adjustment of \$285,000 was made to the net realizable value of assets of discontinued operations. This was a non-cash charge against earnings.

The financial information related to discontinued operations is as follows:

	2006	2005
Sales	\$ 29,326	\$ 15,924,996
Cost of sales	19,770	17,489,550
	9,556	(1,564,554)
Operating expenses:		
Salaries	58,499	960,083
General and administration	-	218,941
	58,499	1,179,024
Amortization	-	846,263
Foreign exchange loss	-	66,193
Write-down property, plant and equipment and intangible assets	-	2,117,068
Plant closure costs	647,392	2,006,773
	647,392	5,036,297
Loss before income taxes	(696,335)	(7,779,875)
Future income tax recovery	(236,754)	(2,271,488)
Net loss from discontinued operations	\$ (459,581)	\$ (5,508,387)
Net loss per share	\$ (0.03)	\$ (0.37)

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 4. Discontinued operations (continued):

The summarized balance sheets for the discontinued operations are as follows:

	2006	2005
<b>Assets:</b>		
Current assets:		
Cash	\$ -	\$ 21,144
Accounts receivable	-	2,684,882
Inventories	-	2,809,290
Prepaid expense	-	228,706
Property, plant and equipment	-	3,566,552
	-	9,310,574
<b>Liabilities:</b>		
Current liability:		
Accounts payable and accrued liabilities	-	3,812,004
<b>Net assets of discontinued operations</b>	<b>\$ -</b>	<b>\$ 5,498,570</b>

Cash flows from discontinued operations are as follows:

Cash flow provided by (used in):		
Operations	\$ 4,823,379	\$ (1,287,233)
Financing	-	(2,159,818)
Investments	-	(713,911)
Changes in cash	(21,144)	21,144
<b>Cash provided by (used in) discontinued operations</b>	<b>\$ 4,802,235</b>	<b>\$ (4,139,818)</b>

In 2005, the accounts receivable included a USD \$301,000 non-interest bearing promissory note from an officer of the subsidiary. The non-interest bearing promissory note was repaid in full in 2006.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

### 5. Property, plant and equipment:

2006	Cost	Accumulated Amortization	Net Book Value
Machinery	\$ 3,033,811	\$ 1,031,963	\$ 2,001,848
Computers	598,694	557,717	40,977
Vehicles	121,012	80,066	40,946
Furniture	286,333	181,584	104,749
Leasehold improvements	68,670	63,870	4,800
Land	142,150	-	142,150
Buildings	2,020,977	123,012	1,897,965
	\$ 6,271,647	\$ 2,038,212	\$ 4,233,435

2005	Cost	Accumulated Amortization	Net Book Value
Machinery	\$ 2,575,375	\$ 673,480	\$ 1,901,895
Computers	596,765	485,673	111,092
Vehicles	121,012	73,732	47,280
Furniture	264,019	175,391	88,628
Leasehold Improvements	68,670	62,508	6,162
Land	81,899	-	81,899
Buildings	1,735,030	69,004	1,666,026
	\$ 5,442,770	\$ 1,539,788	\$ 3,902,982

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 6. Acquisition:

In 2006 and 2005, the purchase price of G&B was increased by \$81,453 and \$357,081, respectively, in accordance with a contingency provision of the acquisition agreement. These purchase price adjustments have been reflected as an increase in goodwill.

## 7. Operating loan:

The Company had no credit facilities established at the end of 2006. In 2005, the Company had a USD \$5,000,000 demand operating loan facility, bearing interest at prime plus 0.5%, and secured as described in note 8.

## 8. Long-term debt:

	2006	2005
Bank term loan	\$ -	\$ 2,627,809
Acquisition financing	-	666,282
Other	-	132,251
Total long-term debt	-	3,426,342
Less: Current portion	-	(3,426,342)
	\$ -	\$ -

At December 31, 2006, the Company has no outstanding debt and no outstanding letters of credit (2005 - \$150,000).

In 2005, the bank term loan incurred interest at bank prime plus 1% per annum. Interest paid on the term loan in 2006 was \$7,147 (2005 - \$237,766). The loan was repayable in equal monthly installments of USD \$77,253 plus interest. The loan was secured by a general security agreement, guarantees of subsidiaries and assignment of insurance proceeds. The loan agreement required the Company to maintain certain minimum financial ratios.

The acquisition financing was non-interest bearing, unsecured, and payable in equal monthly installments of USD \$83,333 per month. The individual to whom this debt was owed was a director of the Company.

## GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

### 9. Share capital:

#### (a) Common shares:

The authorized share capital of the Company consists of an unlimited number of common shares, and an unlimited number of preferred, redeemable, shares. At December 31, 2006, the Company has not issued any of the preferred redeemable shares.

		2006		2005	
	Issued	Amount	Issued	Amount	
Common shares outstanding					
at the beginning of the year	14,856,744	\$ 25,068,800	14,106,744	\$ 23,084,902	
Options exercised	75,000	187,500	150,000	452,000	
Warrant exercised	-	-	600,000	1,500,000	
Reclassification from contributed surplus on exercise of stock options	-	69,885	-	31,898	
	14,931,744	\$ 25,326,185	14,856,744	\$ 25,068,800	

#### (b) Warrant:

In conjunction with a financing agreement in 2000, the Company issued a warrant entitling the lender to acquire up to 600,000 shares at a price of \$2.50 per share prior to June 15, 2005. In 2005, the holder exercised the warrant and acquired 600,000 shares.

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 9. Share capital (continued):

### (c) Stock options:

The Company has granted share options to officers, directors, employees and consultants to purchase common shares. The options vest in one year or evenly over two years from the date of the grants and have a maximum term of ten years. Changes in the number of options outstanding, with their weighted average exercise prices, are summarized below:

	Number of Options	2006 Weighted Average Exercise Price	Number of Options	2005 Weighted Average Exercise Price
Opening Balance	645,000	\$ 2.89	937,500	\$ 3.36
Granted	810,000	2.60	330,000	2.52
Exercised	(75,000)	2.50	(150,000)	3.01
Cancelled or expired	(275,000)	2.90	(472,500)	3.53
Ending balance	1,105,000	\$ 2.70	645,000	\$ 2.89

At December 31, 2006, the stock options granted to officers, directors, employees and consultants to purchase common shares expire in the months noted as follows:

2006	Number of Options	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
August 2007	25,000	\$ 2.00	25,000	\$ 2.00
January 2008	30,000	2.00	30,000	2.00
January 2009	90,000	4.40	90,000	4.40
June 2009	30,000	4.95	30,000	4.95
June 2010	30,000	3.70	10,000	3.70
November 2010	90,000	1.30	60,000	1.30
December 2010	50,000	1.95	27,500	1.95
January 2011	250,000	2.00	-	-
August 2011	60,000	3.10	-	-
October 2011	50,000	2.00	-	-
November 2015	100,000	2.84	-	-
December 2016	300,000	3.12	-	-
Total	1,105,000	\$ 2.70	272,500	\$ 3.02

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 9. Share capital (continued):

(c) Stock options (continued):

At December 31, 2005, the stock options granted to officers, directors, employees and consultants to purchase common shares expire in the months noted as follows:

2005	Number of Options	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
September 2006	75,000	\$ 2.50	75,000	\$ 2.50
August 2007	25,000	2.00	25,000	2.00
January 2008	180,000	2.00	180,000	2.00
August 2008	50,000	5.25	30,000	5.25
January 2009	90,000	4.40	90,000	4.40
June 2009	30,000	4.95	20,000	4.95
September 2009	25,000	5.40	25,000	5.40
June 2010	30,000	3.70	-	-
November 2010	90,000	1.30	30,000	1.30
December 2010	50,000	1.95	5,000	1.95
<b>Total</b>	<b>645,000</b>	<b>\$ 2.89</b>	<b>480,000</b>	<b>\$ 2.99</b>

### 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:

	2006	2005
Expected option life (years)	5.15	3.50
Risk-free interest rate	3.93%	3.80%
Expected stock price volatility	67%	58%
Expected annual dividends per share	\$ 0	\$ 0

The average fair value of options granted during 2006 was \$1.58 per option (2005 - \$0.81 per option).

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 10. Contributed surplus:

	2006	2005
Opening balance	\$ 649,299	\$ 488,383
Stock based compensation	400,088	192,814
Options exercised	(69,885)	(31,898)
Balance end of year	\$ 979,502	\$ 649,299

## 11. Plant closure costs:

The plant closure costs include the one-time costs incurred to wind-up the operations of Rafna and merge them into the operations of G&B. One-time costs include severance to employees, outplacement services, advertising, custom broker fees and other related expenditures.

## 12. Earnings per share:

The computations for basic and diluted earnings per share are as follows:

	2006	2005
Earnings from continuing operations	\$ 3,626,841	\$ 1,790,055
Net earnings (loss)	\$ 3,167,260	\$ (3,718,332)
Average number of common shares outstanding:		
Basic	14,886,539	14,523,202
Effect of stock options	146,731	192,033
Diluted	15,033,270	14,715,235
Earnings per share from continuing operations:		
Basic	\$ 0.24	\$ 0.12
Diluted	\$ 0.24	\$ 0.12
Earnings (loss) per share:		
Basic	\$ 0.21	\$ (0.26)
Diluted	\$ 0.21	\$ (0.26)

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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## 13. Financial instruments:

The financial assets and liabilities consist of cash, accounts receivable, and accounts payable and accrued liabilities. The carrying values of cash, trade accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments.

### (a) Credit Risk

Credit risk arises from the possibility that the entities to which the Company sells products and services may experience difficulty and be unable to fulfill their obligations. The Company is exposed to financial risk that arises from the credit quality of the entities to which it sells products and services. The Company's revenues depend primarily on the level of spending by the major railways, original equipment manufacturers and transit authorities. Demand for the Company's products can be characterized as large one-time orders. The majority of the Company's customers consist of large companies in the railway industry with good credit standing. As a result, the requirement for credit risk related reserves for accounts receivable is minimal.

### (b) Interest Rate Risk

Interest rate risk arises from the possibility that the value of, or cash flows related to, a debt instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to financial risk that arises from the interest rate differentials between the market interest rate and the rates on its financial instruments.

### (c) Foreign Exchange Rate Fluctuation

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. The fair values of financial instruments reflected on the balance sheet approximate the carrying values at December 31, 2006 and 2005.

# GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

## 14. Segmented information:

The Company's operations are based in one dominant industry segment which is primarily the manufacture and sale of railway maintenance equipment. The following is a summary of the Company's sales, property, plant and equipment and goodwill, by segment.

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	United States	Canada	2006 Total
Sales	\$ 27,668,419	\$ 4,215,484	\$ 31,883,903
Property, plant and equipment	\$ 3,873,992	\$ 359,443	\$ 4,233,435
Goodwill	\$ 8,194,136	\$ 3,555,695	\$ 11,749,831

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	United States	Canada	2005 Total
Sales	\$ 19,426,091	\$ 10,455,215	\$ 29,881,306
Property, plant and equipment	\$ 3,439,386	\$ 463,596	\$ 3,902,982
Goodwill	\$ 8,112,683	\$ 3,555,695	\$ 11,668,378

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## 15. Commitments:

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

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2007	\$ 333,401
2008	\$ 247,920
2009	\$ 111,815
2010	\$ 109,021
2011	\$ 111,278

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# **GLOBAL RAILWAY INDUSTRIES LTD.**

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2006 and 2005

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## **16. Related party transactions:**

The Company leases an office building from the previous owners of G&B, one of which was a member of Global's Board of Directors. The lease payments are USD \$79,350 per year until expiry in 2010.

In 2005, accounts payable and accrued liabilities included \$666,282 payable to previous owners of G&B, one of which was a member of Global's Board of Directors.

## **17. Comparative figures:**

Certain of the 2005 comparative figures have been reclassified to conform with the consolidated financial statement presentation adopted in the current year.