GLOBAL RAILWAY INDUSTRIES LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006

The following is Management's Discussion and Analysis ("MD&A") of Global Railway Industries Ltd.'s ("the Company's") financial results of operations for the year ended December 31, 2006. This MD&A has been prepared as of March 15, 2007. Except where otherwise indicated, all financial information is expressed in Canadian dollars. There have been no significant accounting policy or procedural changes made in 2006. This discussion is intended to assist the reader in understanding the dynamics of the Company's business and the key factors underlying its financial results. This discussion should be read in conjunction with the Company's annual financial statements.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

The Chief Executive Officer ("CEO"), the Chief Operating Officer ("COO") and the Chief Financial Officer ("CFO") of the Company are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal controls over financial reporting. The Board of Directors, which is comprised of a majority of independent directors, acts to ensure that management fulfills its financial reporting and internal control responsibilities. In performing its duties, the Board of Directors acts only in an oversight capacity and necessarily relies on the work and assurances of the Company's management. In reliance on reviews and discussions with management, and in light of its roles and responsibilities, the Board of Directors has approved the financial statements for the year ended December 31, 2006.

Strategy

The Company's strategy is to consolidate and rationalize small and medium sized railway equipment suppliers to develop a one stop shopping service for its customers. To maintain its position with each customer, Global supplies well designed, high quality, competitively priced products in a timely manner.

Significant Events in 2006

The overall performance of the Company for the year 2006 was excellent in all facets of its operations. Management completed its turnaround plan announced in the last quarter of 2005 and updated as required throughout 2006. YSD Industries (2004), Inc. ("YSD") was closed in 2005 and its remaining assets were sold resulting in net cash flow from discontinued operations of $4.8 million in 2006. Continuing operations were stabilized and the Company hired a seasoned professional Chief Operating Officer from the railway equipment manufacturing sector. Management moved corporate headquarters to Berwick, PA from Calgary, AB to be closer to Global's operations. G&B Specialties, Inc. ("G&B") purchased land and buildings adjacent to its current facilities to increase capacity for future growth. G&B purchased a new high tech, multispindle, computer numerically controlled machine to improve efficiencies and throughput for some of its key products. The Company acquired a heavy duty high rail gear product line to round out G&B's rail gear portfolio and to supply full product breadth to its rail gear customers. Bach-Simpson Corporation ("Bach") received a number of long term sales contracts that provide a stable base of business for its foreseeable future. Lew Griffiths, one of the previous owners of G&B, retired from the Board of Directors in October, 2006.

In 2006, sales grew, profit increased, cash flow was positive, and earnings per share were up significantly compared with 2005. Gross margins returned to historic highs through operational improvements, realization of manufacturing synergies from moving the Rafna Industries Ltd. ("Rafna", a former subsidiary that has been consolidated into G&B) high rail gear manufacturing to Berwick, PA, and strategic sourcing by the subsidiaries. The Company is in excellent financial condition with $6.8 million in cash, and a debt free balance sheet. Detail by category follows:

Sales

Global's sales are derived primarily from the sales of track switching components, event recorders with crash hardened memory modules, rail gear, freight car parts and boxcar doors through three subsidiaries: G&B, Bach and Prime Steel Inc. ("Prime"). Sales originate predominantly in the United States of America and Canada with less than 5% from other countries. Sales from continuing operations in the year ended December 31, 2006 were $31.9 million; an increase of 6.7% compared with 2005. Sales for the fourth quarter of 2006 were $7.6 million; an increase of 6.3% compared with the fourth quarter of 2005. All three subsidiaries achieved higher sales in 2006 compared with 2005.

The sales growth for the year reflects continued strong demand in the railroad and transit markets served by the Company. The effect of the strengthening Canadian dollar over the United States dollar had less of an impact in the second six months of 2006 than in the first six months of the year. Had the exchange rate remained constant year over year, 2006 sales would have increased by 12% compared with 2005.

Fluctuations in the value of the Canadian dollar affect Global's results when the United States dollar denominated sales and expenses are translated into Canadian dollars. A stronger Canadian dollar reduces the United States dollar denominated sales and expenses. It also reduces net income because there are more sales than expenses in United States dollars.

Cost of Sales/Gross Margins

Gross margins for 2006 were 39.3% compared with 36.7% for 2005. The improved margins in 2006 versus 2005 resulted from tight expense control, rail gear manufacturing synergies in Berwick, PA, and strategic sourcing of materials and components. Margins for the fourth quarter of 2006 were 38.9% compared with 34.5% in the fourth quarter of 2005. The fourth quarter margins met expectations.

Operating Expenses

Salary expenses for the year 2006 were in line with management's expectations and $200,000 lower compared with 2005. General and administrative expenses were lower by $239,000 when compared with 2005. In the fourth quarter of 2006, salaries, general and administrative expenses were 17.1% lower compared with the fourth quarter of 2005 due to severance payments and higher professional fees in 2005.

However, it should be noted that several expenses were higher in 2006 compared with 2005; these are detailed below.

In 2006, the Company began to pay the members of the Board of Directors a stipend and meeting fees, as well as granting stock options. These stipends and fees totaled $193,000 in 2006 compared with nil in 2005.

In 2006, the Board of Directors approved a Bonus Plan for the senior members of Global's management. This bonus was accrued in 2006 and totaled $293,000. There was no bonus plan or payout in 2005.

Professional fees related to audits, reviews, tax reviews, and quarterly financial statement reviews were $201,000 in 2006 compared with $215,500 in 2005. However, the 2005 fees included $45,500 for special reviews of YSD and Rafna. Without those extraordinary expenses the 2005 fees would have been $170,000. Professional fees may continue to increase in 2007 and future years as the Company fulfils its obligations under regulatory mandates. Already in 2007, an estimated $40,000 has been incurred for assistance with Internal Controls Over Financial Reporting ("ICOFR") reviews.

The Company incurred an expense of $400,000 related to non-cash based stock compensation in 2006 compared with $193,000 in 2005.

Interest Income/Expense

For the year ended December 31, 2006, net interest income was $71,000 compared with net interest expense in 2005 of $522,000. The Company repaid all of its outstanding bank debt in the first quarter of 2006. In the fourth quarter 2006, interest income was $45,000 compared with interest expense of $113,000 in the fourth quarter of 2005.

Income Tax

The 2006 effective tax rate on income earned from continuing operations was 37.8% compared with 32.6% for 2005. The estimated 2007 effective tax rate on continuing operations is 38%.

Net Earnings

The 2006 net earnings from continuing operations were $3.6 million; double the $1.8 million in net earnings from continuing operations in 2005. In the fourth quarter of 2006, net earnings from continuing operations were $738,000 compared with a loss of $40,000 in the fourth quarter of 2005. The Company's net earnings for the year 2006 were $3.2 million compared with a loss of $3.7 million in 2005.

Outlook

GLOBAL RAILWAY INDUSTRIES LTD.
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FOR THE YEAR ENDED DECEMBER 31, 2006

In 2006, North American rail traffic reached record levels despite experiencing weakness in some sectors such as lumber and automotive. Total freight volume was up 2.5% compared with 2005. In the fourth quarter of 2006 North American rail carloads increased 0.9% and intermodal traffic was up 1.4% compared with the fourth quarter of 2005. Throughout 2006 demand for coal was strong and helped to offset weaknesses in other sectors. Demand for products and services by the freight companies is expected to remain strong in 2007. The major North American Class 1 rail operators have announced plans to increase capital spending for track, signaling, locomotives and other equipment in 2007. The railroads that announced increases in capital spending in 2007 compared with 2006 include Burlington Northern Santa Fe at 10.9%, Union Pacific at 14.3%, Norfolk Southern at 11.7%, Canadian Pacific at 5.9% and Canadian National at 4.9%. The total capital spending announced by these railroads is in excess of $10.0 billion for 2007. Many Transit Authorities have announced steady or increased capital spending for 2007 compared with 2006.

Management believes that the Company will benefit from these increases and continue to realize sustained growth in 2007.

Financial Results – Continuing Operations

	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Sales*	7,560	7,817	8,684	7,823	7,115	7,397	8,270	7,099
Net earnings*	738	604	1,200	1,085	(40)	503	537	790
EPS, Basic	0.05	0.04	0.08	0.07	(0.01)	0.03	0.04	0.06
EPS, Diluted	0.05	0.04	0.08	0.07	(0.01)	0.03	0.04	0.05

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

From this point forward in the MD&A, the financial results of the continuing operations are discussed. That is, the results of YSD have been removed. The above table shows the financial performance of continuing operations for the last eight quarters. The third and fourth quarter 2005 net earnings reported in the second quarter of 2006 MD&A were changed in the third quarter
2006 report to reflect the treatment of income tax expense related to the closure of YSD. In the third quarter of 2005, YSD was treated as a continuing operation. In the fourth quarter of 2005, YSD was reclassified as a discontinued operation. The income reported for the Company as a whole remained the same.

Liquidity and Capital Resources

In the first quarter of 2006, the Company repaid all its bank debt. As of December 31, 2006, cash on hand was $6.8 million compared with $564,000 as at December 31, 2005. In the fourth quarter of 2006, the Company generated cash of $2.2 million from continuing operations compared with $354,000 in the fourth quarter of 2005. All subsidiaries contributed to the increase through effective working capital management and net earnings.

Management believes that adequate amounts of cash and cash equivalents are available in both the short and the long term to provide for ongoing operations and planned growth. Management is not aware of any trends or expected fluctuations in its liquidity that would create any deficiencies.

Capital Expenditures

In 2006, the Company spent $829,000 on capital additions. Of that amount, $400,000 was spent to acquire two acres of land and 45,000 square feet of buildings adjacent to G&B to provide capacity for growth in 2007 and beyond.

An additional $300,000 was spent to acquire a multipurpose, four axis, computer numerically controlled machine at G&B to improve the efficiency and throughput of key products.

Management plans to implement a common Enterprise Resource Planning "ERP"/Accounting system in 2007 and 2008. This system is already in place at G&B with more than five years of successful operation. Management plans to implement the system at corporate headquarters and Bach in 2007 and at Prime in 2008. This system will provide consistent subsidiary reporting and financial consolidations of all the subsidiaries at the corporate level. Management is budgeting approximately $140,000 in capital and expense for the implementation in 2007 and estimates an additional $50,000 will be expended in 2008.

Contractual Obligations

In October of 2006, the Company entered into an agreement to acquire the ESSCO heavy duty railgear product line. The cost of the acquisition is primarily based on a royalty arrangement. This is a particularly important acquisition for the railgear product lines as it completes the total portfolio approach that management is striving to achieve.

The Company has office and factory lease commitments at G&B, Prime and Bach. These commitments total $333,000 in 2007, $248,000 in 2008 and $112,000 in 2009. The leases at Prime and Bach expire at the end of 2007 and 2008 respectively. Management is confident that neither subsidiary will be negatively impacted by either of these lease negotiations.

In order to ensure continuity of material flow and on time delivery to their customers, G&B and Bach enter into material contracts with some suppliers. These contracts are valued at $120,000 at G&B and $480,000 at Bach. If a significant order were to be cancelled, management would enter into good faith negotiations with both the customer and the suppliers to ensure minimal impact to the Company.

The Company has not entered into any contractual obligations outside the normal course of business in the year ended in December 31, 2006.

Share Capital

At December 31, 2006, the Company had 14,931,744 common shares outstanding. In the third quarter of 2006, 75,000 options were exercised for proceeds of $187,500. If all of the outstanding options were exercised, Global would have 16,036,744 shares outstanding.

Business Risks

The business and operational risks remain relatively unchanged from December 31, 2005. The Company's risks revolve around three primary areas: customers, competitors and materials. As mentioned in the Outlook section of this MD&A, customers are all forecasting increased spending in the markets the Company serves. Consequently, there is minimal risk of decreased order rates. Management is aware of the competitors in its business and sees no new threats to the current customer base. Material (steel and iron) supplies and prices have been stable during the last year and management is not aware of any reason for this to change in the near future. However, any unforecasted change to these key factors could have a material effect on the Company.

Critical Accounting Policies and Estimates

Management prepared the consolidated financial statements in accordance with Canadian GAAP. An understanding of the Company's accounting policies is necessary for a complete analysis of results, financial position, liquidity and trends. Refer to Note 1 in the consolidated financial statements for additional information regarding the Company's significant accounting policies. The consolidated financial statements are presented in Canadian dollars.

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

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

Stock Based Compensation

The Company uses the fair value method for calculating stock based compensation cost. Under this method, compensation cost attributable to stock options granted to employees and directors is measured at fair value using the Black-Scholes method to estimate fair value at the grant date and expensed over the vesting period, with a corresponding increase to contributed surplus. Upon the exercise of options, consideration received, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. The factors affecting stock-based compensation include estimates of when stock options might be exercised and the stock price volatility. While these estimates can have a material impact on the stock-based compensation expense and hence results of operations, there is no impact on the Company's financial condition.

Long-lived Assets

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

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

Recent Accounting Developments

In January 2005, The Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3855, "Financial Instruments –Recognition and Measurement", 1530, "Comprehensive Income" and 3865, "Hedges". Handbook section 3251, "Equity", now incorporates the consequential amendments resulting from the issuance of Section 1530. The new standards will be effective for interim and annual financial statements commencing in 2007. Most significantly for the Company, the new standards will require presentation of a separate statement of comprehensive income. Foreign exchange gains and losses on the translation of the financial statements of self-sustaining subsidiaries previously recorded in a separate section of shareholders' equity will be presented in comprehensive income. Derivative financial instruments will be recorded on the balance sheet at fair value and the changes in fair value of derivatives designated as cash flow hedges will be reported in comprehensive income. The existing principles of AcG- 13 will be maintained.

Disclosure Controls and Procedures and Internal Control over Financial Reporting

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

Internal Control Risks

The CEO, the COO and CFO of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The design of the Company's internal control over financial reporting was assessed as of December 31, 2006. The weaknesses in the Company's internal controls over financial reporting, discussed below, result in more than a remote likelihood that a material misstatement would not be prevented or detected. Management works to mitigate the risk of a material misstatement in financial reporting. However, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

Specifically, management identified areas of concern in:

1. Segregation of duties

   Segregation of duties and user access control deficiencies have been identified within the Company's accounting and finance departments and its financial information systems. Specifically, certain duties within the accounting and finance departments were not properly segregated due to the small number of individuals employed in these areas. The segregation of duties and access control deficiencies have not resulted in a misstatement to the financial statements. However, these deficiencies may be considered a material weakness resulting in a more-than remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected. Management has implemented organizational structure and resourcing changes with a view to enhance segregation of duties and user access controls and to better match skill sets to roles. Management will continue this activity into 2007. In December, 2006, management added an experienced Controller at G&B to improve the segregation of duties and user access controls at G&B.

2. Over reliance on spreadsheets and third party providers

   Accounting personnel rely heavily on the use of accounting spreadsheets and third party providers to generate its monthly, quarterly, and annual financial reports. Although this reliance has not resulted in a misstatement of the financial statements, it is a material weakness in the Company's control environment because of the pervasiveness and significance of the deficiencies. Starting in 2007, management is planning the implementation of a company wide accounting system to be utilized in financial consolidation in place of extensive spreadsheet use.

   Management plans to improve the segregation of duties as part of the company wide accounting system implementation. The experienced Controller at G&B will begin to reduce dependence on third party providers for various reports and analysis.

3. Complex and non-routine transactions

   As required, the Company records complex and non-routine transactions. Sometimes, these transactions are extremely technical in nature and require an in-depth understanding of Canadian GAAP and Canadian tax regulations. The Company's accounting staff has only a fair and reasonable knowledge of the rules related to Canadian GAAP, tax regulations and reporting. Consequently, the transaction may not be recorded correctly, potentially resulting in material misstatement of the financial statements of the Company. To address this risk, the Company consults with its third party expert advisors as needed in connection with the recording and reporting of complex and non-routine transactions. In addition, quarterly reviews of the financial statements are completed by the Company's auditors, and an annual audit is completed and presented to the Audit Committee for its review and approval. As the Company achieves future growth, the Company plans to expand the technical competence of the individuals involved in the accounting function. Effective April 2, 2007, the Company has appointed a new CFO; the new CFO has extensive experience and background in Canadian GAAP and Canadian tax regulations.

Forward Looking Information

Certain statements in this report may constitute "forward looking information" which involve known and unknown risks, uncertainties and other factors that may cause the actual combined results, performance or achievement of the Company to be materially different from any future results, performance or achievements expressed or implied by such "forward looking statements." Such statements may reflect current beliefs, expectations, estimates and assumptions regarding future events and operating performance and speak only as of the date of this report. Reference should be made to the Company's Annual report of December 31, 2006 and the Annual Information Form for a discussion of risk factors including among others technology, competitive and regulatory changes.

For additional guidance, please review the 2006 Annual Report and continuous disclosure materials available through the Sedar website at www.sedar.com.

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Chair, Compensation Committee

John Hagg

Dave Horbay, P.Eng.
Chair, Corporate Governance Committee

James Renner, P.Eng.

Tim Sanderson

Garry Zurowski, CA
Chair, Audit Committee

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