

Q2

SECOND QUARTER INTERIM REPORT TO SHAREHOLDERS Six months ended June 30, 2005

PERFORMANCE DATA	SIX MONTHS ENDED	
	2005	2004 (Restated)
	\$	\$
Revenue	22,141,471	16,779,181
Net earnings	250,726	2,035,178
Per share - basic	0.02	0.15
Per share - diluted	0.02	0.14
EBITDA	1,340,177	3,374,999
Common shares outstanding (#)		
Basic	14,192,352	13,559,271
Diluted	14,631,899	14,312,907

REPORT TO SHAREHOLDERS

Global Railway Industries Ltd. (the "Company") is pleased to enclose the consolidated financial statements for the second quarter ending June 30, 2005.

The second quarter marks the end of several significant structural changes made within Global. The net result of these cumulative changes is that Global is now positioned for its next leg of growth.

The most significant of these changes was the completion of the restructuring of YSD during the quarter. YSD realized a net loss during the quarter however starting in June, YSD is generating positive income and cash flow. Going forward, YSD has confirmed orders extending to the end of the year, and it is expected to be a positive contributor to the Company's net income and cash flow over the balance of the year and into 2006.

Also during the quarter, the Company completed the merger of Rafna into G&B. Total one time costs associated with this move were \$805,164. Management expects the benefits of the merger to more than offset these one time costs over the balance of the year. In management's opinion the merger of the manufacturing of railgear into G&B has positioned the Rafna product line better to realize growth within its market than it could on a stand alone basis. The elimination of overheads, the implementation of quality control processes and more efficient manufacturing processes at G&B cumulatively allow Global to deliver and manufacture railgear in a more timely and efficient manner to its customers.

Global's current base of operations are now positioned for growth. As always, management is constantly evaluating other acquisitions and growth opportunities.

Thank you for your continued support of Global Railway Industries Ltd.

Yours truly,



Mike Kohut
President

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements for Global Railway Industries Ltd. have been prepared by management, which is responsible for the integrity and fairness of the data presented. The accounting policies followed in the preparation of these financial statements conform to generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

The Audit Committee comprised of non-management directors, acts on behalf of the Board of Directors to ensure that the management fulfills its financial reporting and internal control responsibilities. In performing its duties, the Audit Committee 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 Audit Committee recommended to the Board of Directors, and the Board has approved the financial statements for the period ended June 30, 2005.

These interim financial statements have not been reviewed or audited by the Company's auditors.



Mike Kohut
President

CONSOLIDATED BALANCE SHEETS

	JUNE 30, 2005 (unaudited)	DECEMBER 31, 2004 (audited)
Assets		
Current		
Cash	\$ -	\$ -
Accounts receivable	6,505,588	6,810,611
Inventories	12,967,861	10,730,214
Prepays	266,756	352,523
	<u>19,740,205</u>	<u>17,893,348</u>
Deferred development costs	1,179,625	1,434,383
Intangibles and other assets	329,456	354,644
Property, Plant, and Equipment	9,323,782	6,713,586
Future Income Taxes	30,130	212,000
Goodwill	11,311,297	11,311,297
	<u>\$ 41,914,495</u>	<u>\$ 37,919,258</u>
Liabilities		
Current		
Operating Loan	\$ 2,694,677	\$ 52,194
Accounts payable and accrued liabilities	3,924,948	3,473,696
Current portion, long term debt	1,568,243	2,233,689
	<u>8,187,868</u>	<u>5,759,579</u>
Long term debt	2,506,362	3,006,300
	<u>10,694,230</u>	<u>8,765,879</u>
Shareholders' Equity		
Share Capital (Note 3)	25,048,616	23,084,902
Contributed surplus	542,584	488,383
Cumulative translation adjustment	(1,588,919)	(1,387,164)
Retained earnings	7,217,984	6,967,258
	<u>31,220,265</u>	<u>29,153,379</u>
	<u>\$ 41,914,495</u>	<u>\$ 37,919,258</u>

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

THREE MONTHS ENDED JUNE 30,

SIX MONTHS ENDED JUNE 30,

	2005	2004	2005	2004
(unaudited)		(Restated)		(Restated)
Sales	\$ 11,326,682	\$ 8,704,559	\$ 22,141,471	\$ 16,779,181
Cost of sales	<u>(8,122,135)</u>	<u>(5,307,551)</u>	<u>(16,203,170)</u>	<u>(10,208,649)</u>
Gross Margin	3,204,547	3,397,008	5,938,301	6,570,532
Operating Expenses				
Salaries	1,249,161	977,292	2,406,481	1,741,242
General and administrative	<u>853,244</u>	<u>950,644</u>	<u>1,386,479</u>	<u>1,454,291</u>
Operating income before the following	1,102,142	1,469,072	2,145,341	3,374,999
Depreciation and amortization	367,497	233,730	626,263	390,277
Amortization of deferred development	70,447	-	139,898	-
Interest	118,973	86,477	246,131	132,842
Foreign exchange loss (gain)	49,937	(9,648)	(17,499)	66,020
Plant Closure Costs (Note 4)	<u>805,164</u>	<u>-</u>	<u>805,164</u>	<u>-</u>
(Loss) Income Before Taxes	(309,876)	1,158,513	345,384	2,785,860
Income tax (recovery) expense	<u>(79,636)</u>	<u>197,621</u>	<u>94,658</u>	<u>750,682</u>
Net (loss) earnings	(230,240)	960,892	250,726	2,035,178
Retained earnings beginning of period:				
As previously reported	7,448,224	6,280,235	6,967,258	5,205,949
Effect of change in accounting policy for deferred development costs (Note 2)	<u>-</u>	<u>(189,933)</u>	<u>-</u>	<u>(189,933)</u>
	7,448,224	6,090,302	6,967,258	5,016,016
Retained earnings, end of period	7,217,984	7,051,194	7,217,984	7,051,194
(Loss) Earnings per share				
Basic	\$ (0.02)	\$ 0.07	\$ 0.02	\$ 0.15
Diluted	\$ (0.02)	\$ 0.07	\$ 0.02	\$ 0.14

CONSOLIDATED STATEMENT OF CASH FLOWS

	Three months ended June 30, 2005		Six months ended June 30, 2005	
	2005	2004	2005	2004
(unaudited)		(Restated)		(Restated)
CASH FLOWS PROVIDED BY (USED IN):				
OPERATIONS				
Net (loss) earnings for the period	\$ (230,240)	\$ 960,892	\$ 250,726	\$ 2,035,178
Items not involving cash:				
Future tax	86,900	(3,409)	181,870	(22,631)
Stock based compensation expense	17,509	-	65,915	-
Unrealized foreign exchange loss	56,590	-	16,810	57,365
Depreciation and amortization	367,497	233,730	626,263	390,277
Amortization of deferred development	70,447	-	139,898	-
Funds from operations	368,703	1,191,213	1,281,482	2,460,189
Change in non-cash working capital balance:				
Accounts receivable	1,038,158	(136,582)	305,023	(1,673,855)
Inventories	(1,173,176)	(695,146)	(2,237,647)	(1,037,267)
Prepays	99,285	16,750	85,767	(23,659)
Account payable	105,221	855,318	451,252	1,904,482
Foreign currency gain (loss) on working capital balance	170,013	112,967	(86,895)	185,384
	608,204	1,344,520	(201,018)	1,815,274
INVESTMENTS				
Purchase of property, plant and equipment	(1,359,213)	(819,705)	(3,236,459)	(967,022)
Deferred development costs	-	(189,933)	-	(189,933)
Acquisitions, net of cash acquired	-	(4,990,413)	-	(4,990,413)
Other assets	11,671	43,576	25,188	62,491
	(1,347,542)	(5,956,475)	(3,211,271)	(6,084,877)
FINANCING				
Issuance of share capital	1,725,000	100,500	1,952,000	12,580,002
Share issue costs	-	-	-	(799,806)
Repayment of long term debt	(593,301)	(644,293)	(1,182,194)	(2,054,211)
	1,131,699	(543,793)	769,806	9,725,985
INCREASE (DECREASE) IN CASH	392,361	(5,155,748)	(2,642,483)	5,456,382
(Operating loan) CASH beginning of period	(3,087,038)	11,239,056	(52,194)	626,926
(Operating loan) CASH end of period	\$ (2,694,677)	\$ 6,083,308	\$ (2,694,677)	\$ 6,083,308

NOTES TO FINANCIAL STATEMENTS

The interim financial statements of Global Railway Industries Ltd. have been prepared in accordance with Canadian generally accepted accounting principles. Certain information and disclosures normally required to be included in the notes to the annual financial statements have been condensed or omitted. The interim financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2004. The interim financial statements have been prepared following the same accounting policies and methods of computation as used in the financial statements for the year ended December 31, 2004.

1. Business of the Company

Global Railway Industries Ltd. designs, manufactures, and markets railway maintenance products, equipment and services to the railway industry.

2. Comparative Numbers

In the fourth quarter of 2004 the Company adopted a policy to account for the pre-operating period expenditures incurred by YSD Industries (2004) Inc. Expenditures, net of related revenues, during the pre-operating period have been deferred and are being amortized on a straight line basis over five years. The comparative numbers have been restated to reflect the adoption of accounting for these development costs from April 5, 2004, the date of acquisition.

3. Share Capital

Authorized

Unlimited number of common voting shares

Unlimited number of preferred redeemable shares

	Issued	Amount
Common Shares, December 31, 2004	14,101,744	\$ 23,084,902
Options Exercised	150,000	452,000
Warrants Exercised	600,000	1,500,000
Reclassification from contributed Surplus on exercise of stock options	-	11,714
Common Shares, June 30, 2005	<u>14,851,744</u>	<u>\$ 25,048,616</u>

4. Plant Closure Costs

The plant closure costs include the one time cost incurred to wind-up the operations at Rafna Industries Ltd. and merge them into the operations at G&B Specialties, Inc. One time costs include severance to employees, outplacement services, advertising, custom broker fees, travel and other related expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is the Management's Discussion and Analysis of the Corporation's quarterly financial results of operations for the period ended June 30, 2005.

6 MONTHS ENDED	June 2005	June 2004
		(Restated)
Sales	\$22,141,471	\$16,779,181
Net Earnings	250,726	2,035,124
Earnings Per Share		
Basic	\$0.02	\$ 0.15
Fully diluted	\$0.02	\$ 0.14

REVENUE

Revenue for the quarter ended June 30, 2005 includes revenues from Rafna Industries Ltd., Bach-Simpson, Prime Steel Inc., YSD Industries (2004) Inc. and G&B Specialties, Inc. YSD was acquired effective April 5, 2004 however the comparative period does not include revenue from YSD as it was netted against expenditures incurred during the pre-operating period.

The increase in revenues during the first six months of 2005 is due primarily to the inclusion of revenue from YSD. G&B revenues measured in US dollars increased in the current year over the comparative period, however this increase was reduced when converted into Canadian dollars as a result of the lower foreign exchange rate in the current quarter versus the comparative period. These increases are offset by a decrease in revenue at Prime.

COST OF SALES/GROSS MARGINS

Overall gross margins for the six month period ended June 30, 2005 decreased from 39% to 27% compared to the corresponding period. The decrease in gross margins relates primarily to a decrease in margins at Prime Steel and the inclusion of operations from YSD which is generating lower gross margins than the other subsidiaries.

OPERATING EXPENSES

The salary increase for the six months ended June 30, 2005 is due to the inclusion of YSD salaries. The current year contains YSD salaries since the beginning of the year whereas the prior year results only include salaries since the date of acquisition, April 5, 2005. The balance of the increase can be attributed to the stock based compensation expense and a general cost of living increase provided to employees.

The decrease in general and administrative expense is due to a reduction at all subsidiaries with the exception of YSD. The general and administrative expenses at YSD have increased in the current year due to a full six months of expenditures versus the comparative period in the prior year which only includes expenditures since April 5, 2004. A refund of insurance premiums contributed to the reduction in general and administrative expenses at G&B.

INTEREST EXPENSE

During the six month period ended June 30, 2005 Global utilized its operating line of credit versus surplus cash balances during the six month period ended June 30, 2004. This has resulted in an increase in the interest expense for the six months ended June 30, 2005.

INCOME TAX

The effective tax rate on income earned was 27% in the current and comparative period.

NET EARNINGS

Net earnings for the first six months ended June 30, 2005 had decreased from the comparative period in 2004 due to losses incurred by YSD, as well a reduction in net income in Prime Steel. The reduction in earnings was also negatively impacted by the costs to close the Rafna facility and merge the operations into G&B.

FINANCIAL RESULTS

	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004	Q4 2003	Q3 2003
Sales	\$11,326,682	\$10,814,789	\$10,602,061	\$7,365,318	\$8,704,559	\$8,074,622	\$5,834,563	\$8,920,869
Net earnings	(230,240)	480,966	(759,473)	485,604	960,892	1,074,286	233,563	1,133,770
Basic (loss) earnings per share	(0.02)	0.03	(0.05)	0.03	0.07	0.08	0.02	0.11
Fully diluted (loss) earnings per share	(0.02)	0.03	(0.06)	0.03	0.07	0.08	0.02	0.11

The above table shows the financial performance over the last two years for Global Railway Industries Ltd. (the Company). As evidenced above the acquisition of YSD on April 5th, 2004 has impacted the quarterly results. Prior to the fourth quarter of 2004 the results from YSD's operations have been deferred and are being amortized over a five year period. The closure of Rafna Industries Ltd. resulted in the net loss in the second quarter of 2005 due to one time charges incurred.

Selected annual information is as follows:

	2004	2003	2002
Sales	\$ 34,746,560	\$ 26,014,652	\$ 12,618,326
Income	1,761,309	2,453,659	1,484,457
Basic earnings per share	0.13	0.28	0.23
Fully diluted earnings per share	0.12	0.27	0.23
Total assets	37,919,258	26,316,917	12,247,978
Total liabilities	8,765,879	10,485,437	6,039,747

The Company has not declared or paid any dividends in the fiscal years depicted above.

LIQUIDITY AND CAPITAL RESOURCES

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

Global has a \$5 million operating loan with a senior Canadian bank. In addition, Global has an unutilized \$10 million committed revolving facility to fund all or part of future acquisitions. Global believes it can raise capital in excess of these amounts, if required to complete any future acquisitions.

Capital Expenditures

During the six months ended June 30, 2005 approximately \$3.2 million was spent on capital expenditures. The majority of these expenditures have been incurred to ready and install new machinery at YSD and G&B. As the new equipment is now installed at YSD and the merger of the Rafna operations has been completed, management does not expect any material capital expenditures for the remainder of the year.

Contractual Obligations

The Company has not entered into any new contractual obligations in the first six months of 2005. For additional guidance please review the 2004 annual report.

Share Capital

At June 30, 2005 Global has 14,851,744 common shares outstanding. During the second quarter 600,000 warrants were exercised for \$1,500,000 and 152,000 options were exercised for \$452,000 proceeds. If all of the options were exercised Global would have 15,529,244 shares outstanding.

Business Risks

The business and operational risks remain unchanged from December 31, 2004. For additional guidance please review the 2004 annual report.

FORWARD LOOKING INFORMATION

A number of matters discussed in the Management's Discussion and Analysis are not historical or current facts and deal with potential future circumstances and developments and are forward looking statements within the meaning of applicable securities law. Such statements are qualified by inherent risks and uncertainties surrounding future expectations generally, and the Corporation's actual results and experience involving anyone or more of the matters set forth in forward looking statements.

July 26, 2005

CORPORATE INFORMATION

DIRECTORS	CORPORATE OFFICE
<p>Michael Kohut President & Chief Executive Officer Global Railway Industries Ltd.</p> <p>Dale Owen, Chairman Partner Owen•Kirzinger LLP</p> <p>Tim Sanderson Corporate Director</p> <p>Dave Horbay Corporate Director</p> <p>Phil Ogden Corporate Director</p> <p>Lew Griffiths Corporate Director</p> <p>Robb Thompson President and CEO Dynetek Industries Ltd.</p> <p>Terry McManaman Corporate Director</p> <p>OFFICERS</p> <p>Michael Kohut President & Chief Executive Officer</p> <p>Darren Zatwarnitski Vice President of Finance</p> <p>Greg Peterson Secretary</p>	<p>Global Railway Industries Ltd. Suite #12, 611-10th Avenue SW Calgary, Alberta T2R 0B2 Phone (403) 262-6501 Fax (403) 262-6563 Email info@globalrailway.com www.globalrailway.com</p> <p>BANKERS TD Canada Trust Calgary, Alberta</p> <p>AUDITORS KPMG LLP Calgary, Alberta</p> <p>LEGAL COUNSEL Gowling Lafleur Henderson LLP Calgary, Alberta</p> <p>TRANSFER AGENT Computershare Trust Company of Canada 600, 530 - 8th Avenue S.W. Calgary, Alberta T2P 3S8 Phone 1-800-564-6253</p> <p>STOCK EXCHANGE Toronto Stock Exchange Symbol: GBI</p>



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