



GLOBAL RAILWAY INDUSTRIES LTD.



**GLOBAL RAILWAY INDUSTRIES LTD.**  
**2<sup>ND</sup> QUARTER REPORT TO SHAREHOLDERS**  
**FOR SIX MONTHS ENDED JUNE 30, 2006**

**PERFORMANCE DATA**

SIX MONTHS ENDED JUNE 30,

	<b>2006</b>	<b>2005</b>
	(unaudited)	(restated)
	\$	\$
Sales	16,506,696	15,369,391
Net (loss) earnings		
Continuing Operations	2,285,566	1,327,319
Discontinued Operations	(523,085)	(1,076,592)
Net (loss) earnings for the period	1,762,481	250,727
Earnings per share		
Continuing Operations		
Basic	0.15	0.09
Fully diluted	0.15	0.09
Net Earnings		
Basic	0.12	0.02
Fully diluted	0.11	0.02
Common shares outstanding	#	#
Basic	14,856,744	14,192,352
Diluted	15,489,244	14,631,899

# GLOBAL RAILWAY INDUSTRIES LTD.

## FOR SIX MONTHS ENDED JUNE 30, 2006

### REPORT TO SHAREHOLDERS

Global Railway Industries Ltd. (the Company) is pleased to enclose the consolidated financial statements for the second quarter ending June 30, 2006.

During the second quarter of 2006, we continued to focus on improving the return from our continuing operations, finalizing the closure of YSD, and positioning the Company for future acquisitions. During the three months ended June 30, 2006, net earnings from continuing operations was \$ 1.2 million; a 123% increase compared with the same period in 2005. As of June 30, 2006, we have \$ 2.7 million cash resources, no long term debt, and the closure of YSD is largely completed.

In October 2005, we announced the closure of YSD Industries (2004) Inc. The results of the closure are reported as discontinued operations. Closure operating costs of \$ 106,865 in the second quarter of 2006 were in line with management's expectations. We expect third quarter closure costs to be minimal.

The Company's management expects our annual sales pattern to follow traditional cycles and looks forward to continued excellent returns and cash flows during the remainder of 2006.

Thank you for your support of Global Railway Industries Ltd.

Yours truly,

*"Signed"*

Terry McManaman  
President & CEO

### 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 Canadian Generally Accepted Accounting Principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

The Board of Directors, which is comprised of a majority of independent directors, acts to ensure that the 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 period ended June 30, 2006.

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

*"Signed"*

Terry McManaman  
President & CEO

**GLOBAL RAILWAY INDUSTRIES LTD.**  
**CONSOLIDATED BALANCE SHEETS**

	June 30,	December 31,
	2006	2005
	(unaudited)	(audited)
<b>Assets</b>		
Current		
Cash	\$ 2,669,549	\$ 564,237
Accounts receivable	4,279,857	3,835,534
Inventories	7,105,471	7,286,468
Prepaid assets	239,622	95,315
Assets of discontinued operations	579,532	9,310,574
Income taxes recoverable	292,425	210,864
	15,166,456	21,302,992
Other assets	0	79,799
Plant and equipment	3,783,916	3,902,982
Future income tax benefit	1,142,538	1,838,258
Goodwill (Note 4)	11,749,831	11,668,378
	\$ 31,842,741	\$ 38,792,409
<b>Liabilities</b>		
Current		
Operating loan	\$ 0	\$ 1,836,366
Accounts payable and accrued liabilities	2,327,450	2,597,721
Current portion of long term debt (Note 5)	0	3,074,562
Liabilities of discontinued operations	402,858	3,812,004
	2,730,308	11,320,653
<b>Shareholders' Equity</b>		
Share capital (Note 2)	25,068,800	25,068,800
Contributed surplus	905,303	649,299
Cumulative translation adjustment	(1,873,077)	(1,495,269)
Retained earnings	5,011,407	3,248,926
	29,112,433	27,471,756
	\$ 31,842,741	\$ 38,792,409

**GLOBAL RAILWAY INDUSTRIES LTD.**  
**CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS**

Three months ended June 30,

Six months ended June 30,

	2006	2005	2006	2005
		(Restated)		(Restated)
Sales	\$ 8,683,781	\$ 8,270,271	\$ 16,506,696	\$ 15,369,391
Cost of Sales	(5,271,153)	(4,908,435)	(9,877,794)	(9,515,124)
Gross Margin	3,412,628	3,361,836	6,628,902	5,854,267
Operating Expenses				
Salaries	959,792	1,002,895	1,825,941	1,936,068
General and Administrative	668,228	689,874	1,256,751	1,142,227
Operating Income before the following	1,784,608	1,669,067	3,546,210	2,775,972
Depreciation and amortization	118,508	134,479	241,840	267,038
Interest – Net	(14,537)	195,200	9,687	246,131
Foreign Exchange (gain) loss	(93,717)	49,937	(67,215)	(17,499)
Plant Closure Costs	0	805,164	0	805,164
Earnings before income taxes – continuing operation	1,774,354	484,287	3,361,898	1,475,138
Income Tax Expense	574,251	(52,866)	1,076,332	147,819
Net Earnings – continuing operations	1,200,103	537,153	2,285,566	1,327,319
Discontinued Operations				
Loss from discontinued operations				
Operations	(106,865)	(767,392)	(238,085)	(1,076,592)
Adjustment of net realizable value of assets of discontinued operations	0	0	(285,000)	0
	(106,865)	(767,392)	(523,085)	(1,076,592)
Net earnings for the period	1,093,238	(230,239)	1,762,481	250,727
Retained earnings at the beginning of period	3,918,169	7,448,224	3,248,926	6,967,258
Retained earnings at the end of period	\$ 5,011,407	\$ 7,217,985	\$ 5,011,407	\$ 7,217,985
Earnings per share – from continuing operations				
Basic	\$ 0.08	\$ 0.04	\$ 0.15	\$ 0.09
Fully Diluted	\$ 0.08	\$ 0.04	\$ 0.15	\$ 0.09
Earnings per share				
Basic	\$ 0.07	\$ (0.02)	\$ 0.12	\$ 0.02
Fully Diluted	\$ 0.07	\$ (0.02)	\$ 0.11	\$ 0.02

**GLOBAL RAILWAY INDUSTRIES LTD.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Net Earnings for Period	\$ 1,200,103	\$ 537,153	\$ 2,285,566	\$ 1,327,319
Items Not Involving Cash				
Income taxes recoverable	1,647	0	(81,561)	0
Future income tax benefit	402,157	535,158	695,720	630,128
Stock Based Compensation Expense	111,601	17,509	256,004	54,201
Unrealized FX gain	(81,453)	0	(81,453)	0
Depreciation	118,508	134,479	241,840	267,038
	552,460	687,146	1,030,550	951,367
Change in Working Capital				
Accounts Receivable	(415,994)	246,167	(444,323)	(788,703)
Inventory	466,846	(269,907)	180,997	(426,023)
Prepays	74,780	77,274	(144,307)	41,659
Accounts Payable	(1,257,863)	(758,133)	(270,271)	(1,110,694)
F/C change on W/C balances	(15,238)	187,176	(377,808)	(201,755)
	(1,147,469)	(517,423)	(1,055,712)	(2,485,516)
Cash flow from investing activities				
Purchase of Capital Assets	(71,766)	(238,928)	(122,774)	(818,675)
Other Assets	82,770	(875)	79,799	(1,296)
	11,004	(239,803)	(42,795)	(819,971)
Financing				
Issuance of share capital	0	1,725,000	0	1,963,714
Change in operating loan	0	(392,361)	(1,836,366)	3,148,583
Repayment of long term debt	0	(238,981)	(3,074,562)	(498,835)
	0	1,093,658	(4,910,928)	4,613,462
Change in cash from continuing operations	616,098	1,560,731	(2,693,499)	3,586,661
Change in cash from discontinued operations	446,910	(1,208,765)	4,798,811	(4,235,676)
INCREASE(DECREASE) IN CASH	1,063,008	351,966	2,105,312	(649,015)
Cash at beginning of period	1,606,541	0	564,237	1,000,981
Cash at end of period	\$ 2,669,549	\$ 351,966	\$ 2,669,549	\$ 351,966

**GLOBAL RAILWAY INDUSTRIES LTD.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005**

The interim financial statements of Global Railway Industries Ltd. ("the Company") 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, 2005. 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, 2005. The Annual Report and continuous disclosure documents are available through the Sedar website at [www.sedar.com](http://www.sedar.com).

**1. Business of the Company**

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

**2. Share Capital**

Authorized  
 Unlimited number of common voting shares  
 Unlimited number of preferred redeemable shares

	Issued		Amount
Common Shares, December 31, 2005	14,856,744	\$	25,068,800
Options Exercised	0		0
Common shares, June 30, 2006	14,856,744	\$	25,068,800

If all of the outstanding options were exercised Global would have 15,489,244 shares outstanding.

**3. Discontinued Operation**

In the first two quarters of 2006, a majority of the assets, product lines and related inventories of YSD were sold. The last remaining piece of equipment was sold early in the third quarter of 2006 for \$320,000. YSD operating expenses through June 30, 2006 were \$ 523,085. Second quarter expenses were \$ 106,865 and included \$ 75,000 USD in bonus paid to former employees of YSD who were instrumental in the sale and shutdown of the company. In the first quarter of 2006, a \$ 285,000 adjustment was made to the net realizable assets of discontinued operations. This was a non cash charge against earnings. YSD assets at the end of the second quarter were \$ 579,532 and liabilities were \$ 402,858.

**4. Goodwill**

In the second quarter of 2006, the Company reached a final settlement on the G & B Purchase and Sale Agreement. The effect was an addition of \$ 81,453 to Goodwill and the Accounts payable and accrued liabilities.

**5. Long Term Debt**

In the first quarter of 2006, the Company repaid all of its outstanding bank debt.

**6. Related Party Transactions**

The G&B office building is leased from previous owners of G&B; one of which sits on Global's Board of Directors. The lease term expires in 2010 and lease payments are \$79,350 per year. The then existing lease was part of the G&B Purchase and Sale Agreement.

The Accounts payable and accrued liabilities include \$161,235 payable to previous owners of G&B, one of which sits on Global's Board of Directors. The liability is for consulting services per the G & B Purchase and Sale Agreement.

**GLOBAL RAILWAY INDUSTRIES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2006**

The following is the Management's Discussion and Analysis of the Corporation's quarterly financial results of operations for the period ended June 30, 2006.

**REVENUE**

In the first six months of 2006, revenues from continuing operations increased by 7% compared with the same period of 2005. Revenue for the second quarter increased by 5% compared with the second quarter of 2005. Sales increases were accomplished at Bach Simpson and G&B Specialties. While Prime Steel's sales for six months were below 2005, their second quarter improved from the same period of 2005.

The continuing weakening of the US dollar opposite the Canadian dollar has adversely affected our sales volume. Had the exchange rate remained constant from the first six months of 2005, the sales increase would have been about 15% in the first six months and 13% in the second quarter.

**COST OF SALES/GROSS MARGINS**

Gross margins for the first six months of 2006 were 40%, compared with 38% in 2005. Margins for the second quarter were 39%, compared with 40% in the second quarter of 2005.

**OPERATING EXPENSES**

In the first six months of 2006, salary expenses decreased by 6% and general and administrative expenses increased by 10% compared with the first half of 2005. Increases were basically at Corporate and included travel expenses for the shutdown of the Calgary office and an accrual for legal and professional fees. In the second quarter, salary and general and administrative expenses were lower than the second quarter of 2005 by 4% and 3% respectively.

**INTEREST INCOME EXPENSE - NET**

In the second quarter the Company had net interest income of \$ 14,537 on the overnight investment of its excess cash. Interest expense has decreased for the first six months of 2006 by \$ 236,444 from 2005 as all debt was repaid in the first quarter of 2006.

**INCOME TAX**

The effective tax rate on income earned was 32% in the first six months of 2006 and also the second quarter of 2006.

**NET EARNINGS**

Net earnings for the first six months of 2006 increased by \$ 1,511,754 from 2005. In 2005, the Company booked a one time after tax merger expense of \$ 543,486 to cover the closure costs of the Rafna operation.

**GLOBAL RAILWAY INDUSTRIES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR SIX MONTHS ENDED JUNE 30, 2006**

**FINANCIAL RESULTS - CONTINUING OPERATIONS**

From this point forward in the MD&A, the financial results of the continuing operations are discussed. That is, YSD results have been removed unless otherwise stated.

	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004
Sales	8,683,781	\$7,822,915	\$7,114,866	\$7,397,049	\$8,270,271	\$7,099,120	\$5,810,518	\$6,026,769
Net earnings	1,200,103	1,085,463	(885,701)	1,348,437	537,153	790,166	227,821	1,025,907
Basic	0.08	0.07	(0.08)	0.10	0.04	0.06	0.01	0.07
Fully Diluted	0.08	0.07	(0.07)	0.10	0.04	0.05	0.01	0.07

Subsequent to the year end, a review of discontinued operations resulted in a reclassification of certain items which caused adjustments in earnings from continuing operations and discontinued operations. The income reported for the Company as a whole remains the same.

The above table shows the financial performance from continuing operations for the last eight quarters for Global Railway Industries Ltd. Results in the second quarter improved greatly from the same period in 2005. Year to date results improved by 72% compared with the same period of 2005.

**LIQUIDITY AND CAPITAL RESOURCES**

In the first quarter of 2006 the Company repaid all of its outstanding bank debt and has cash on hand of \$2.7 million dollars. The Company currently has access to a \$ 2,000,000 operating credit line. No funds have been drawn against this facility,

**Capital Expenditures**

To date the Company has spent approximately \$ 123,000 on capital additions. Of the amount, \$ 71,766 was spent in the second quarter.

**Contractual Obligations**

The Company has entered into no new contractual obligations outside the normal course of business in the first quarter of 2006.

**Share Capital**

At June 30, 2006, the Company has 14,856,744 common shares outstanding. There were no share capital transactions in the first two quarters of 2006. If all of the outstanding options were exercised, Global would have 15,489,244 shares outstanding.

**Business Risks**

The business and operational risks remain unchanged from December 31, 2005. For additional guidance, please review the 2005 Annual Report and continuous disclosure materials available through the Sedar website at [www.sedar.com](http://www.sedar.com).

**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 any one or more of the matters set forth in forward looking statements.

**GLOBAL RAILWAY INDUSTRIES LTD.  
CORPORATE INFORMATION**

<b>DIRECTORS</b>	<b>CORPORATE OFFICE</b>
<p><b>Terry McManaman</b> President &amp; Chief Executive Officer Global Railway Industries Ltd.</p> <p><b>Phil Ogden</b> Chairman of the Board</p> <p><b>Lew Griffiths</b> Corporate Director</p> <p><b>John Hagg</b> Corporate Director</p> <p><b>Dave Horbay</b> Corporate Director</p> <p><b>James Renner</b> Corporate Director</p> <p><b>Tim Sanderson</b> Corporate Director</p> <p><b>Garry Zurowski</b> Corporate Director</p> <p><b>OFFICERS</b></p> <p><b>Terry McManaman</b> President &amp; Chief Executive Officer</p> <p><b>Mike Feschak</b> Chief Financial Officer</p> <p><b>Bill Sturtz</b> Chief Operating Officer</p> <p><b>Greg Peterson</b> Secretary</p>	<p><b>Global Railway Industries Ltd.</b> 535 W. 3<sup>rd</sup> Street Berwick, PA 18603 Phone (570) 802-0366 Fax (570) 802-0369 Email <a href="mailto:info@globalrailway.com">info@globalrailway.com</a> Website: <a href="http://www.globalrailway.com">www.globalrailway.com</a></p> <p><b>BANKERS</b> TD Canada Trust Calgary, Alberta</p> <p><b>AUDITORS</b> KPMG LLP Calgary, Alberta</p> <p><b>LEGAL COUNSEL</b> Gowling Lafleur Henderson LLP Calgary, Alberta</p> <p><b>TRANSFER AGENT</b> Computershare Trust Company of Canada 600, 530 - 8<sup>th</sup> Avenue S.W. Calgary, Alberta T2P 3S8 Phone 1-800-564-6253</p> <p><b>INVESTOR RELATIONS</b> Gerry Wimmer Investorfile.com 416-360-8895 1-888-894-8222 <a href="mailto:gwimmer@investorfile.com">gwimmer@investorfile.com</a></p> <p><b>STOCK EXCHANGE</b> Toronto Stock Exchange Symbol: GBI</p>



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