



THIRD QUARTER INTERIM REPORT TO SHAREHOLDERS

Nine months ended September 30, 2004

PERFORMANCE DATA

NINE MONTHS ENDED SEPTEMBER 30

| | 2004 | 2003 (Restated) |
|-------------------------------|------------|-----------------|
| | \$ | \$ |
| Revenue | 24,144,499 | 20,180,092 |
| Net earnings | 2,520,782 | 2,220,096 |
| Per share – basic | 0.18 | 0.26 |
| Per share – diluted | 0.18 | 0.26 |
| EBITDA | 4,205,890 | 3,606,566 |
| Common shares outstanding (#) | | |
| Basic | 13,735,096 | 8,447,504 |
| Diluted | 14,323,862 | 8,638,390 |

REPORT TO SHAREHOLDERS

Global Railway is pleased to enclose the consolidated financial statements for the third quarter ending September 30, 2004.

On April 5, 2004 Global purchased the assets of YSD Industries Ltd. At the time of purchase, the assets were generating losses of approximately \$3.5 million annually. To become profitable, YSD had to implement a quality control program, restructure its workflow, modernize the production process by adding new machinery and reestablish relationships with its customers and suppliers. Significant progress has been made on all of these major objectives to the point where YSD is expected to break even in the fourth quarter of this year.

All expenses directly related to the reorganization of YSD, net of revenues generated have been capitalized as deferred development costs. Total deferred development costs incurred to date are approximately \$1.5 million. These costs relate to implementation of a quality control program, restructuring the manufacturing process and reestablishing relationships with customers and suppliers and have been netted against revenues generated of USD \$ 3.8 million for the nine month period ended September 30, 2004. All other costs that can not be directly attributed to the reorganization have been expensed in the income statement. For the period ended September 30, 2004 Global has recorded an after tax loss of approximately \$615,000 relating to these costs.

Excluding YSD, Global generated revenues for the three-month period ended September 30, 2004 of \$7.4 million realizing pretax and gross margins of 18% and 38% respectively. Excluding YSD, Global generated net earnings of approximately \$0.93 Million and \$0.07 of earnings per share during the quarter.

On a comparative basis and excluding YSD, revenues and operating results for the three-month period ended September 30, 2004 were impacted specifically due to a decline in revenues from Rafna and Bach-Simpson in the month of September and due to the foreign currency translation loss on the conversion of the results of G&B Specialties. Bach-Simpson's revenue in September 2004 was lower due to timing of approximately \$0.4 million in shipments that were realized subsequent to the third quarter. During the three month period ended September 2004, Rafna's sales were significantly lower than the comparative period. This was an unexpected anomaly just prior to the normal seasonal downturn in sales in this market. Rafna has made workforce adjustments to reduce its cost structure for the remainder of 2004 to help offset the lower seasonal sales volume.

Earnings per share in both three and nine-month ending September 30 2004 period has decreased from the comparative periods in 2003 due to a larger number of shares outstanding as a result of a financing completed by Global in January 2004 and also as a result of the losses incurred in YSD since acquisition on April 5, 2004.

Global remains poised to realize significant organic growth from its existing base of operations from both the completion of the restructuring at YSD and the continued organic growth expected for 2005 due to strong industry fundamentals. As always, in addition to the substantial organic growth, Global is always attempting to create shareholder value through acquisitions.

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

Yours truly,

"Signed"
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 a majority 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 September 30, 2004.

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

"Signed"
Mike Kohut
President

CONSOLIDATED BALANCE SHEETS

| | SEPTEMBER 30, 2004 (unaudited) | DECEMBER 31, 2003 (audited) (Restated - note 1) |
|--|--------------------------------------|--|
| Assets | | |
| Current | | |
| Cash | \$ 3,049,715 | \$ 626,926 |
| Accounts receivable | 5,946,091 | 3,284,198 |
| Inventories | 11,298,361 | 6,812,598 |
| Prepays | 356,332 | 238,140 |
| | 20,650,499 | 10,961,862 |
| Deferred Development costs (Note 1) | 1,509,876 | - |
| Plant and equipment | 6,765,040 | 3,810,032 |
| Intangibles and other assets | 476,555 | 233,726 |
| Goodwill | 11,311,297 | 11,311,297 |
| | \$ 40,713,267 | \$ 26,316,917 |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | 4,070,842 | 1,459,734 |
| Current portion, long term debt | 2,594,037 | 2,672,238 |
| | 6,664,879 | 4,131,972 |
| Future Income Taxes | 646,460 | 133,874 |
| Long term debt | 3,475,263 | 6,219,591 |
| | 10,786,602 | 10,485,437 |
| Shareholders' Equity | | |
| Share Capital (Note 3) | 22,717,455 | 10,937,259 |
| Contributed surplus (Note 1) | 336,203 | 336,203 |
| Cumulative translation adjustment | (853,724) | (647,931) |
| Retained earnings | 7,726,731 | 5,205,949 |
| | 29,926,665 | 15,831,480 |
| | \$ 40,713,267 | \$ 26,316,917 |

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

| | THREE MONTHS ENDED SEPTEMBER 30, | | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|----------------------------------|---------------------|---------------------------------|---------------------|
| | 2004 | 2003 | 2004 | 2003 |
| (unaudited) | | (Restated - note 1) | | (Restated - note 1) |
| Sales | \$ 7,365,318 | \$ 8,920,869 | \$ 24,144,499 | \$ 20,180,092 |
| Cost of sales | (4,585,342) | (5,311,550) | (14,983,924) | (12,052,194) |
| Gross Margin | 2,779,976 | 3,609,319 | 9,160,575 | 8,127,898 |
| Operating Expenses | | | | |
| Salaries | 1,070,837 | 909,144 | 2,812,079 | 2,380,192 |
| General and administrative | 688,315 | 907,253 | 2,142,606 | 2,141,140 |
| Operating income before the following | 1,020,824 | 1,792,922 | 4,205,890 | 3,606,566 |
| Depreciation and amortization | 111,089 | 202,731 | 501,366 | 378,699 |
| Interest-net | 85,600 | 130,165 | 218,442 | 302,881 |
| Foreign exchange (gain) / loss | (93,002) | 4,904 | (26,982) | (267,071) |
| Earnings before income taxes | 917,137 | 1,455,122 | 3,513,064 | 3,192,057 |
| Income tax expense | 241,600 | 321,352 | 992,282 | 971,161 |
| Net earnings | 675,537 | 1,133,770 | 2,520,782 | 2,220,096 |
| Retained earnings beginning of period: | | | | |
| As previously reported | 7,051,194 | 4,174,819 | 5,542,152 | 2,839,877 |
| Effect of change in accounting for stock based compensation | - | (336,203) | (336,203) | (87,587) |
| | 7,051,194 | 3,838,616 | 5,205,949 | 2,752,290 |
| Retained earnings, end of period | \$ 7,726,731 | \$ 4,972,386 | \$ 7,726,731 | \$ 4,972,386 |
| Earnings per share | | | | |
| Basic | \$ 0.05 | \$ 0.11 | \$ 0.18 | \$ 0.26 |
| Fully diluted | \$ 0.05 | \$ 0.11 | \$ 0.18 | \$ 0.26 |

CONSOLIDATED STATEMENT OF CASH FLOWS

| | THREE MONTHS ENDED SEPTEMBER 30, | | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|----------------------------------|--------------------|---------------------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 |
| (unaudited) | | (Restated - note1) | | (Restated - note1) |
| CASH FLOWS PROVIDED BY (USED IN): | | | | |
| OPERATIONS | | | | |
| Net earnings for the period | \$ 675,537 | \$ 1,133,770 | \$ 2,520,782 | \$ 2,220,096 |
| Items not involving cash: | | | | |
| Future tax | 535,217 | 3,571 | 512,586 | 151,667 |
| Stock based compensation expense | - | - | - | 248,616 |
| Previously acquired tax losses used to reduce taxes payable | - | (103,445) | - | - |
| Depreciation and amortization | 111,089 | 202,731 | 501,366 | 378,699 |
| Funds from operations | 1,321,843 | 1,236,627 | 3,534,734 | 2,999,078 |
| Change in non-cash working capital balance: | | | | |
| Accounts receivable | 196,993 | 107 | (1,476,862) | (743,857) |
| Inventories | (1,468,496) | 487,612 | (2,505,763) | 302,471 |
| Prepays | (94,533) | (10,880) | (118,192) | (136,857) |
| Account payable | 101,899 | (342,036) | 2,006,382 | 624,427 |
| Foreign currency (loss)/gain on working capital balances | (391,177) | 31,477 | (205,782) | (241,736) |
| | (333,471) | 1,402,907 | 1,234,517 | 2,803,526 |
| FINANCING | | | | |
| Issuance of share capital | - | 300,000 | 12,580,002 | 7,850,000 |
| Share issue costs | - | - | (799,806) | (624,317) |
| Issuance of debt | - | - | - | 9,602,163 |
| Repayment of long term debt | (825,683) | (1,596,930) | (2,822,529) | (3,314,714) |
| | (825,683) | (1,296,930) | 8,957,667 | 13,513,132 |
| INVESTMENTS | | | | |
| Purchase of capital assets | (399,803) | (128,521) | (1,366,824) | (101,391) |
| Deferred development costs | (1,509,876) | - | (1,509,876) | - |
| Acquisitions, net of cash acquired | - | - | (4,990,413) | (15,108,167) |
| Other assets | 35,240 | (20,106) | 97,731 | 53,284 |
| | (1,874,439) | (148,627) | (7,769,382) | (15,156,274) |
| (DECREASE) INCREASE IN CASH | (3,033,593) | (42,650) | 2,422,802 | 1,160,384 |
| CASH (operating loan) beginning of period | 6,083,308 | 710,517 | 626,926 | (492,517) |
| CASH end of period | \$ 3,049,715 | \$ 667,867 | \$ 3,049,715 | \$ 667,867 |

NOTES TO FINANCIAL STATEMENTS

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, 2003. Except as otherwise disclosed in these notes, 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, 2003.

1. ACCOUNTING POLICIES

a) Stock Based Compensation

Effective January 1, 2004, the Company adopted the revised Canadian accounting standard for stock-based compensation and other stock based payments with restatement of prior periods. Under the fair value method, compensation cost attributable to all stock options granted to employees and directors is measured at 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.

The effect of the change in accounting policy as outlined above has been recorded retroactively with restatement of prior periods. At January 1, 2004, the effect of the change resulted in an increase to contributed surplus and an offsetting decrease to retained earnings of \$336,203. A reconciliation of contributed surplus resulting from the adoption is provided below:

| | | |
|---|----|----------------|
| Balance beginning of period | \$ | 0 |
| Adoption of change in accounting policy | | 87,587 |
| Stock based compensation expense first quarter; 2003 | | 159,291 |
| Stock based compensation expense second quarter; 2003 | | <u>89,325</u> |
| Balance, end of period | \$ | <u>336,203</u> |

b) Deferred Development Costs

Expenditures incurred, net of related revenues, during the pre-operating period in YSD Industries (2004) Inc. have been deferred and will be amortized on a straight line basis over five years.

c) Intangible Assets

Intangible Assets include non-competition payments to former owners of YSD Industries. Amortization is provided on a straight-line basis over the useful life of the asset.

2. ACQUISITIONS

On April 5, 2004, Global acquired all of the assets of YSD Industries Inc. YSD is a provider of rail car doors, replacement parts and services primarily in the United States.

Total consideration was \$4,990,413 which includes \$388,751 of acquisition costs, satisfied by the payment of cash. The total purchase price of the acquisition was allocated based on fair values as follows:

| | | |
|-----------------------|----|------------------|
| Inventory | \$ | 1,980,000 |
| Accounts receivable | | 1,185,031 |
| Intangibles | | 340,560 |
| Land | | 261,194 |
| Building | | 783,581 |
| Equipment | | <u>1,044,775</u> |
| Total assets acquired | | 5,595,141 |
| Less: liabilities | | <u>604,728</u> |
| Net assets acquired | | <u>4,990,413</u> |

3. SHARE CAPITAL

Authorized

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

| | Issued | Amount |
|-------------------------------------|-------------------|----------------------|
| Common Shares, December 31, 2003 | 10,370,672 | \$ 10,937,259 |
| Options Exercised | 10,000 | 25,000 |
| Warrants Exercised | 277,500 | 555,000 |
| Private Placement | 3,428,572 | 12,000,002 |
| Private Placement share issue costs | <u>—</u> | <u>(799,806)</u> |
| | <u>14,086,744</u> | <u>\$ 22,717,455</u> |

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 September 30, 2004.

| | September 2004 | September 2003 |
|--------------------|---------------------------|---------------------------|
| | | (Restated) |
| Sales | \$24,144,499 | \$ 20,180,092 |
| Net Earnings | 2,520,782 | 2,220,096 |
| Earnings Per Share | | |
| Basic | \$ 0.18 | \$ 0.26 |
| Fully diluted | \$ 0.18 | \$ 0.26 |

REVENUE

Revenue for the quarter ended September 30, 2004 includes revenues from Rafna Industries Ltd., Bach-Simpson, Prime Steel Inc. and G&B Specialties, Inc. G&B was acquired effective May 1, 2003 and the comparative period includes revenue from G&B for a five month period.

The increase in revenues during the first nine months of 2004 is due primarily to the inclusion of nine months of revenue from G&B, a \$700,000 increase in revenues in Prime over the same period a year ago, offset by approximately a \$700,000 decrease in revenue over the same period a year ago in both Bach and Rafna.

For the quarter ended September 30, 2004 YSD Industries (2004) Inc generated revenues of USD \$2.8 million. Expenditures incurred to reorganize YSD, net of these related revenues have been capitalized as deferred development costs.

COST OF SALES/GROSS MARGINS

Overall gross margins for the nine month period ended September 30, 2004 decreased from 40% to 38% compared to the corresponding period. The decrease in gross margins relates primarily to the inclusion of operations from G&B which is lower gross margin business than the other operations.

OPERATING EXPENSES

The increase in salaries for the nine month period ended September 30, 2004 is the result of the inclusion of salaries from G&B Specialties, Inc. for nine months, an increase in salaries of approximately \$170,000 in Prime and the inclusion of salaries from YSD offset by reduction in salaries of approximately \$298,000 and \$153,000 in Rafna and Bach respectively.

The increase in general and administrative expense for the nine month period ended September 30, 2004 is the result of the inclusion of expenses from G&B Specialties, Inc. for nine months, the inclusion of expenses from YSD offset by reductions in expenses in Global, Rafna and Bach.

INTEREST EXPENSE - NET

Interest expense on long term debt decreased due to the repayment of the \$2,822,529 of debt during the nine month period ended September 30, 2004.

INCOME TAX

For the nine month period ended September 30, 2004 the effective tax rate on income earned was 28% versus 30% for the comparative period.

NET EARNINGS

Excluding YSD, Global generated earnings of \$929,000 or \$0.07 per share during the second quarter. Since the acquisition date, YSD has generated an after tax loss of approximately \$615,000 or \$0.04 per share.

Net earnings for the nine month period ended September 30, 2004 had increased over the comparative period mainly due to the inclusion of results from G&B for nine months in the current period versus five months in the comparative period and an increase in income in Prime Railway Services, offset by a reduction in income at Bach and Rafna and a net loss from YSD.

LIQUIDITY AND CAPITAL RESOURCES

During the nine month period ended September 30, 2004 the Company completed a \$12 million private placement equity financing. Part of the proceeds from the equity financing was used to purchase the assets of YSD Industries Inc. The remaining proceeds will be used to fund additional acquisitions and organic growth within the Company.

Global has a \$5.0 million operating loan with a senior Canadian bank that is not currently drawn on.

Capital Expenditures

The Corporation has spent approximately \$1,000,000 to date on capital expenditures at YSD and has budgeted to spend an additional USD \$500,000 at YSD during the year. These expenditures will be funded from the Company's existing cash flow and cash reserves. Other than expenditures at YSD, the Company does not anticipate any material capital expenditures in the next fiscal year.

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.

CORPORATE INFORMATION

| DIRECTORS | CORPORATE OFFICE |
|---|--|
| <p>Michael Kohut President & Chief Executive Officer Global Railway Industries Ltd.</p> <p>Bradley W. Ashley, Chairman Managing Partner Priveq Capital Funds</p> <p>Dale Owen Partner Owen•Mayer•Kirzinger</p> <p>Tim Tycholis Businessman</p> <p>Tim Sanderson President Rafna Industries Limited</p> <p>Dave Horbay Independent Businessman</p> <p>Phil Ogden Independent Businessman</p> <p>Lew Griffiths Independent Businessman</p> <p>OFFICERS</p> <p>Michael Kohut President & Chief Executive Officer</p> <p>Dale Owen Chief Financial Officer</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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