Consolidated Financial Statements of

GLOBAL RAILWAY INDUSTRIES LTD.

(In Canadian dollars)

Years ended December 31, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Global Railway Industries Ltd.

We have audited the accompanying consolidated financial statements of Global Railway Industries Ltd., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Global Railway Industries Ltd. as at as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 14, 2012

London, Canada

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GLOBAL RAILWAY INDUSTRIES LTD.
Consolidated Statements of Financial Position
(In Canadian dollars)
December 31, 2011, December 31, 2010 and January 1, 2010

	December 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets:			
Cash and cash equivalents (note 11)	$ 4,285,302	$ 5,357,742	$ 2,622,123
Short-term investments	2,782,201	6,267,780	-
Trade and other receivables (note 12)	208,442	4,436,807	8,497,527
Escrow receivables (note 9 and 10)	4,167,084	7,821,000	-
Inventories (note 13)	-	6,364,754	14,477,398
Costs and estimated earnings on uncompleted contracts in excess of billings (note 14)	-	5,353,997	5,917,775
Prepaid expenses	13,500	450,539	1,014,439
	11,456,529	36,052,619	32,529,262
Non-current assets:			
Property, plant and equipment (note 15)	-	8,919,090	22,776,870
Intangible assets (note 16)	-	-	9,532,279
Deferred tax assets (note 19)	-	6,453,663	5,828,611
	-	15,372,753	38,137,760
Total assets	$ 11,456,529	$ 51,425,372	$ 70,667,022
Liabilities and Equity			
Current liabilities:			
Bank indebtedness	$ -	$ -	$ 616,299
Operating loan (note 24)	-	-	6,720,000
Trade and other payables (note 18)	223,569	6,259,833	8,024,410
Income taxes payable	278,313	156,312	1,870,353
Current portion of provisions (note 17)	250,000	803,722	824,942
Current portion of customer deposits (note 23)	-	1,217,475	2,497,360
Current portion of long-term debt (note 24)	-	-	17,201,750
	751,882	8,437,342	37,755,114
Non-current liabilities:			
Provisions (note 17)	-	889,376	1,140,408
Customer deposits (note 23)	-	283,016	1,246,036
Deferred tax liabilities (note 19)	-	1,539,753	3,098,940
	-	2,712,145	5,485,384
Equity: (note 20)			
Share capital	26,387,766	26,374,781	26,366,433
Contributed surplus	2,744,438	2,746,742	2,699,847
Retained earnings (deficit)	(18,427,557)	11,154,362	(1,639,756)
	10,704,647	40,275,885	27,426,524
Economic dependence (note 31)			
Subsequent event (note 33)			
Total liabilities and equity	$ 11,456,529	$ 51,425,372	$ 70,667,022

The notes on pages 5 to 43 are an integral part of these Consolidated Financial Statements.

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On behalf of the Board:

"signed" Thomas Dea
Chairman of the Board

"signed" Laurie Bennett
Chairman of the Audit Committee

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Statements of Comprehensive Income (Loss)
(In Canadian dollars)
Years ended December 31, 2011, and December 31, 2010

		2011		2010
Sales (note 5)	$	30,907,423	$	45,264,248
Cost of goods sold		28,469,236		43,749,382
Gross profit		2,438,187		1,514,866
Other operating expenses:				
Administration expenses		4,072,893		5,758,793
Selling expenses		462,412		833,310
Impairment of property, plant and equipment and intangible assets (note 34)		-		9,700,000
		4,535,305		16,292,103
Loss on sale of subsidiary (note 9)		(12,141,113)		-
Loss from operating activities		(14,238,231)		(14,777,237)
Finance income (note 7)		287,329		70,257
Finance costs (note 7)		(237,556)		(495,149)
Net finance income (costs)		49,773		(424,892)
Loss from operations before income taxes		(14,188,458)		(15,202,129)
Income tax expense (recovery) (note 8):				
Current		4,328		347,771
Deferred		125,068		(4,204,848)
		129,396		(3,857,077)
Loss from operations		(14,317,854)		(11,345,052)
Earnings from discontinued operations, net of income taxes (note 10)		-		24,139,169
Net earnings (loss)		(14,317,854)		12,794,117
Other comprehensive loss, net of income taxes:				
Foreign currency translation differences for foreign operations		-		(177,032)
Comprehensive income (loss)	$	(14,317,854)	$	12,617,085
Earnings (loss) per share (note 21):				
Basic	$	(0.94)	$	0.84
Diluted	$	(0.94)	$	0.84
Loss per share from operations (note 21):				
Basic	$	(0.94)	$	(0.74)
Diluted	$	(0.94)	$	(0.74)
Earnings per share from discontinued operations (note 21):				
Basic	$	-	$	1.58
Diluted	$	-	$	1.58

The notes on pages 5 to 43 are an integral part of these Consolidated Financial Statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Statements of Changes in Equity
(In Canadian dollars)
Years ended December 31, 2011, and December 31, 2010

	Number of common shares issued	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total equity
Balance at January 1, 2010	15,239,900	$ 26,366,433	$ 2,699,847	$ -	$ (1,639,756)	$ 27,426,524
Net earnings	-	-	-	-	12,794,117	12,794,117
Share-based payment	-	-	49,843	-	-	49,843
Options exercised	12,499	8,348	(2,948)	-	-	5,400
Other comprehensive income:						
Change in accumulated foreign currency translation adjustment	-	-	-	(177,032)	-	(177,032)
Realization of cumulative translation adjustment loss on sale of GBIH	-	-	-	177,032	-	177,032
Balance at December 31, 2010	15,252,399	$ 26,374,781	$ 2,746,742	$ -	$ 11,154,361	$ 40,275,884
Balance at January 1, 2011	15,252,399	$ 26,374,781	$ 2,746,742	$ -	$ 11,154,362	$ 40,275,885
Net loss	-	-	-	-	(14,317,854)	(14,317,854)
Share-based payment	-	-	2,281	-	-	2,281
Options exercised	11,666	12,985	(4,585)	-	-	8,400
Dividend paid	-	-	-	-	(15,264,065)	(15,264,065)
Balance at December 31, 2011	15,264,065	$ 26,387,766	$ 2,744,438	$ -	$ (18,427,557)	$ 10,704,647

The notes on pages 5 to 43 are an integral part of these Consolidated Financial Statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Statement of Cash Flows
(In Canadian dollars)
Years ended December 31, 2011, and December 31, 2010

	2011	2010
Cash provided by (used in):		
Cash flows from operating activities:		
Loss from operations	$ (14,317,854)	$ (11,345,052)
Adjustments for:		
Impairment of property, plant and equipment and intangible assets (note 34)	-	9,700,000
Loss on sale of subsidiary (note 9)	12,141,113	-
Income tax expense (recovery)	129,396	(3,857,077)
Share-based payment	2,281	49,843
Depreciation of plant and equipment	288,273	972,137
Depreciation of intangibles	-	229,757
Variation of depreciation included in inventories	26,363	66,719
Net finance costs (income) (note 7)	(49,773)	424,892
	(1,780,201)	(3,758,781)
Change in:		
Trade and other receivables	500,715	1,074,197
Escrow receivables	3,653,916	-
Prepaid expenses	(155,732)	456,106
Inventories	362,031	625,753
Costs and estimated earnings on uncompleted contracts in excess on billings	(719,238)	433,133
Billings on uncompleted contracts in excess of costs and estimated earnings	336,665	-
Trade and other payables	(1,479,524)	1,824,815
Provisions	(428,337)	(449,022)
Customer deposits	(783,515)	(1,279,885)
	1,286,981	2,685,097
Interest paid	(44,644)	(22,932)
Income taxes paid	(1,628)	(916,999)
Net cash used in operating activities	(539,492)	(2,013,615)
Cash flows from investing activities:		
Acquisition of plant and equipment	(218,513)	(478,284)
Net proceeds from sale of subsidiaries (note 9 and 10)	11,509,376	36,266,809
Proceeds from sale of short-term investments	16,500,000	-
Purchase of short-term investments	(13,000,000)	(6,250,000)
Interest received (note 7)	210,571	57,621
Net cash from investing activities	15,001,434	29,596,146
Cash flows from financing activities:		
Repayment of customer deposits	(283,016)	(963,020)
Repayment of operating loan	-	(6,720,000)
Repayment of long-term debt	-	(17,380,000)
Proceeds from exercise of share options	8,400	5,400
Payment of bank fees (note 7)	(31,248)	(261,334)
Dividends paid (note 20)	(15,264,065)	-
Net cash used in financing activities	(15,569,929)	(25,318,954)
Increase (decrease) in cash and cash equivalents from operations	(1,107,987)	2,263,577
Disposition of bank indebtedness (cash) from sale of subsidiaries (note 9 and 10)	35,547	(967,929)
Increase in cash and cash equivalents from discontinued operations (note 10)	-	2,056,270
Increase (decrease) in cash and cash equivalents	(1,072,440)	3,351,918
Cash and cash equivalents, beginning of period	5,357,742	2,005,824
Cash and cash equivalents, end of period	$ 4,285,302	$ 5,357,742

The notes on pages 5 to 43 are an integral part of these Consolidated Financial Statements.

GLOBAL RAILWAY INDUSTRIES LTD.

1. Nature of operations:

Global Railway Industries Ltd. ("the Company") is a company domiciled in Canada, with its Registered Office located at 12220 Stony Plain Road, Edmonton, AB, T5N 3Y4. The Company designed, manufactured, remanufactured, and marketed railway products, equipment, locomotives, and services to the railway industry prior to the sale of its last operating subsidiary on September 23, 2011 (see note 9). The Company was incorporated in the Province of Alberta and was listed under the symbol "GBI" on the Toronto Stock Exchange (TSX) until its voluntary delisting from the TSX on November 3, 2011. The delisting from the TSX was made following the initial distribution to shareholders on November 2, 2011 (see note 20). The Company is now listed on the NEX, a separate board of the TSX Venture Exchange, under the ticker symbol "GBI.H" since November 4, 2011 because the Company was no longer able to meet the TSX's listing requirements following the sale of its only remaining operating subsidiary, CADRI, and the commencement of the winding-up of the Company.

On October 14, 2011, the Company filed a Certificate of Intent to Dissolve Global Railway Industries Ltd., under the *Alberta Business Corporations Act*, with the Alberta Registrar of Corporations and, upon conclusion of the winding up process, the Company intends to apply for a Certificate of Dissolution once tax clearance is obtained.

On October 14, 2011, the Company filed a Certificate of Dissolution for a Nevada Profit Corporation for GBI Industries Inc., with the Corporation Service Company (CSC).

The Consolidated Financial Statements of the Company as at and for the year ended December 31, 2010, which were prepared under Canadian generally accepted accounting principles ("GAAP"), are available on SEDAR, or at www.globalrailways.com.

2. Basis of preparation:

(a) Statement of compliance:

The Company transitioned to International Financial Reporting Standards (“IFRS”) from Canadian generally accepted accounting principles (“GAAP”) on January 1, 2010 (the “Transition Date”). In accodance with IFRS 1, First-time Adoption of IFRS (“IFRS 1”), the Company has restated all required prior period financial information to be in accordance with IFRS. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 34. The note includes reconciliations of equity and total comprehensive income for comparative periods reported under Canadian GAAP to under IFRS.

These Consolidated Financial Statements should be read in conjunction with the Company's 2010 annual Consolidated Financial Statements prepared in accordance with Canadian GAAP and with the accounting policies, transition disclosures, and selected annual disclosures disclosed in notes 2, 3, and 34.

Presentation of the Consolidated Statements of Financial Position differentiates between current and non-current assets and liabilities. The Consolidated Statements of Comprehensive Income (Loss) are presented using the functional classification for expenses.

These Consolidated Financial Statements were approved by the Company's Board of Directors on March 8, 2012.

(b) Basis of measurement:

The Consolidated Financial Statements have been prepared on the historical cost basis.

(c) Functional and presentation currency:

These Consolidated Financial Statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments:

The preparation of the Consolidated Financial Statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, intangible assets including goodwill; valuation allowances for trade and other receivables, inventories, and deferred income taxes; provisions for restructuring, warranty obligations and environmental remediation costs; revenue under the percentage of completion method; and the calculation of stock-based compensation. These estimates and assumptions are based on Management’s best estimates and judgments. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which Management believes to be reasonable under the circumstances. Management adjusts such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets and declines in customer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the Consolidated Financial Statements in future periods.

2. Basis of preparation (continued):

(d) Use of estimates and judgments (continued):

The key judgments made in applying accounting policies that have the most significant effect on the amounts recognized in these Consolidated Financial Statements are as follows:

(i) Provision for claims:

Provisions are made for warranty and environmental costs based on past experience and Management's best estimate of the timing of future payments and an appropriate discount rate.

(ii) Provision against trade receivables for claims:

The Company makes estimates on the recoverability of trade receivable balances based on specific facts and circumstances as well as past experience of write-offs. Changes in the economic conditions in which customers operate and their underlying financial stability impact Management's estimates in provisions against trade receivable balances.

(iii) Lease classifications:

The Company enters into leases for production equipment which may be classified as operating or finance leases. Judgment is exercised by Management in determining if substantially all the risks and rewards incidental to ownership have been transferred to the Company.

(iv) Obsolescence provision:

The value of the Company's inventory is evaluated by Management throughout each period. Where appropriate, a provision is recorded against the cost of the inventory to ensure that inventory values reflect the lower of cost and estimated net realizable value. Management identifies slow-moving or obsolete parts inventory and estimates appropriate obsolescence provisions that are then applied to the aging of the inventory.

(v) Impairment tests:

Management exercises judgment to identify its cash generating units ("CGUs") and to calculate the value in use and fair value less costs to sell of the CGUs. The CGUs at the Company are the operating entities that make up the operating segments. Key assumptions used in the calculation of recoverable amounts are discount rates, terminal values, growth rates, sustainable earnings multiples and EBITDA. EBITDA is the sum of earnings before interest, income taxes, depreciation and amortization.

(vi) Tax assets:

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer considered probable that the related tax benefit will be realized.

(vii) Share options:

In calculating the fair value associated with share options, Management is required to make estimates on, among other things, risk-free rates of returns, expected volatility, expected dividends, expected life of options, expected forfeitures and future market conditions.

(viii) Depreciation rates and residual values:

In calculating the depreciation to be expensed in the Consolidated Statement of Comprehensive Income (Loss) for plant and equipment, Management is required to make estimates of the expected useful life of the assets, the expected residual value and the stream of income to be generated by the asset. These estimates are evaluated periodically and adjusted prospectively, where necessary, to reflect actual experience.

3. Significant accounting policies:

(a) Basis of consolidation:

The Consolidated Financial Statements include the accounts of Global Railway Industries Ltd. and the wholly-owned subsidiaries which it controls. Control over a subsidiary exists when Global Railway Industries Ltd. has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The subsidiaries include CAD Railway Industries Ltd. ("CADRI") and its wholly-owned subsidiary, CAD Railway Properties Inc. ("CRP"), which were sold on September 23, 2011, GBI Industries, Inc. and 1703558 Ontario Inc. ("1703558", formerly Bach-Simpson Corporation ("Bach-Simpson")), which was wound up on September 21, 2011. All intercompany balances, and any unrealized gains and losses or income and expenses arising from intercompany transactions, are eliminated in preparing the Consolidated Financial Statements. The sale of CADRI and the wind up of 1703558 are described in notes 9 and 10.

As part of the transition to IFRS, the Company elected not to restate those business combinations that occurred prior to January 1, 2010. In respect of acquisitions made prior to January 1, 2010, goodwill represents the amount recognized under the Company's previous accounting framework, Canadian GAAP.

(b) Cash and equivalents:

Cash and cash equivalents consist of cash, deposits and short-term interest-bearing securities with maturities at purchase date of three months or less.

(c) Short-term investments:

Short-term investments consist of interest-bearing securities with maturities at purchase date of more than three months but less than one year.

(d) Inventories:

CADRI's inventories of components and purchased parts for remanufacturing projects are valued at the lower of cost, on a weighted average basis, and net realizable value. Finished goods and work in process are valued at the lower of cost, including materials, labour and overhead, and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. Inventories of components and purchased parts for manufacturing for discontinued operations were valued at the lower of cost and net realizable value, on a first-in, first-out basis ("FIFO") at Bach-Simpson and G&B Specialties, Inc ("G&B").

(e) Contracts in progress:

Costs and estimated earnings on uncompleted contracts in excess of billings represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditures related directly to the specific projects and an allocation of fixed and variable overheads incurred based on normal operating capacity. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as costs and estimated earnings on uncompleted contracts in excess of billings on the Consolidated Statements of Financial Position.

(f) Property, plant and equipment:

Items of property, plant and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other cost directly attributable to bringing the assets to a working condition for the intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for the capitalization is on or after January 1, 2010.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognized net within administration expenses on the Consolidated Statements of Comprehensive Income (Loss).

The Company recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing a component of an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced component is removed. All other costs are recognized in profit or loss as an expense as incurred.

3. Significant accounting policies (continued):

(f) Property, plant and equipment (continued):

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then the component is depreciated separately. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives are as follows:

Asset	Useful life
Buildings	40 years
Machinery and equipment	11 - 20 years
Building improvements	10 years
Furniture	10 years
Computers	5 years
Vehicles	5 years
Leasehold improvements	Term of lease

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted prospectively if appropriate.

(g) Intangible assets:

(i) Goodwill:

All business combinations are accounted for by using the acquisition method of accounting. In respect of business acquisitions that have occurred since January 1, 2010, goodwill represents the difference between the fair value of consideration transferred for an acquisition and the fair value of the net identifiable assets acquired. In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount previously recognized under Canadian GAAP.

Goodwill is measured at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested for impairment annually or more frequently if events or circumstances indicate impairment may exist.

(ii) Other intangible assets:

Other intangible assets acquired individually or as part of a group of other assets are recognized and measured at cost less accumulated amortization and accumulated impairment losses. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination, is allocated to the individual assets based on their fair value. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Intangible asset	Useful life
Customer relationships	10 years
Trade names and trademarks	5 years
Non-compete agreements	Terms of agreement

Amortization methods and useful lives are reviewed at each reporting date and adjusted prospectively if appropriate.

Intangible assets with an indefinite useful life are tested systematically for impairment at each annual balance sheet date, or more often if events or circumstances indicate impairment may exist.

Subsequent expenditures on capitalized intangible assets are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

3. Significant accounting policies (continued):

(h) Impairments:

(i) Financial assets:

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of default, the timing of recoveries and the amount of losses incurred, adjusted for Management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than inventories, assets arising from contracts and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGUs. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

The Company's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

An impairment loss is recognized whenever the carrying amount of an asset or CGU exceeds its estimated recoverable amount. Impairment losses recognized in respect of the CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then, to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Impairment losses are recognized immediately in the Consolidated Statements of Comprehensive Income (Loss).

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been previously recognized.

(i) Employee benefits:

(i) Share-based option plan:

The Company uses the fair value method for calculating share-based payment expense. Under this method, compensation expense attributable to share options granted to employees are measured at fair value at the grant date and expensed over the vesting period; with a corresponding increase to contributed surplus. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met. 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.

(ii) Termination benefits:

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more that twelve months after the reporting date, then they are discounted to their present value.

3. Significant accounting policies (continued):

(i) Employee benefits (continued):

(iii) Short-term employee benefits:

Short-term employee benefits include wages, salaries, compensated absences, and bonuses. Short-term employee benefit obligations are measured on a undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(j) Revenue recognition:

The Company ships goods 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. Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. The Company recognizes revenue when persuasive evidence exists, usually in the form on an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing Management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

Revenues for engineering service contracts, production contracts and longer term remanufacturing contracts are recognized under the percentage of completion ("POC") method. Under the POC method, revenue is recognized based on the costs incurred to date as a percentage of the total estimated costs for each unit of production. If circumstances arise that may change the original estimates of revenues, costs, or extent of progress toward completion, then revisions to the estimates are made. These revisions may result in increases or decreases in estimated revenues or costs, and such revisions are reflected in income in the period in which the circumstances that give rise to the revision become known by Management. Any excess of progress billings over earned revenue or earned revenue over progress billings on the engineering service contracts, production contracts and construction contracts is carried as "billings on uncompleted contracts in excess of costs and estimated earnings" and "costs and estimated earnings on uncompleted contracts in excess of billings", respectively, in the Consolidated Statements of Financial Position.

The Company charges any anticipated losses on contracts to earnings as soon as they are identified. The Company also provides for the estimated cost of product warranties at the time of revenue recognition.

Rental revenue is recognized in profit or loss on a straight-line basis over the term of the lease.

(k) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for: goodwill as it is not deductible for tax purpose; the initial recognition of assets or liabilities that affect neither accounting nor taxable income (loss); and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. Deferred tax is measured at the rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date to account for changes in tax rates.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer considered probable that the related tax benefit will be realized.

(l) Earnings (loss) per share:

The Company presents basic and diluted earnings (loss) per share data for its common shares. Basic earnings (loss) per common share is calculated by dividing the earnings or loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share is computed similar to basic earnings (loss) per common share except that earnings or loss attributable to shareholders and the weighted average shares outstanding are adjusted for the effects of all dilutive potential shares, which comprise any outstanding share options granted.

3. Significant accounting policies (continued):

(m) Foreign currency:

Transactions of the parent company and its subsidiaries originating in foreign currencies are translated to Canadian dollars at the foreign exchange rates at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are translated to Canadian dollars at the foreign exchange rate at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates at the dates the fair value was determined. Foreign exchange gains and losses arising from such transactions are recognized in profit or loss within net finance costs.

Prior to July 28, 2010, the Company had a foreign operation located in the United States with the U.S. dollar as its functional currency. Assets and liabilities of this foreign operation, including goodwill and fair market value adjustments arising on acquisition, are translated into Canadian dollars at the exchange rates in effect at the balance sheet dates and revenues and expenses are translated into Canadian dollars at average monthly exchange rates for the period. Foreign currency differences resulting from the translation of this foreign operation are recognized and presented in other comprehensive income (loss) and in accumulated other comprehensive income (loss) in equity. When a foreign operation is disposed of, the cumulative translation amount is reclassified from accumulated other comprehensive income to profit and loss as part of the gain or loss on disposal. As explained in note 34, the Company has elected to transfer the cumulative translation amount at January 1, 2010 as previously recognized under Canadian GAAP to retained earnings (deficit). Translation gains or losses subsequent to January 1, 2010 are included in accumulated other comprehensive income (loss) in the Consolidated Statements of Changes in Equity. On July 28, 2010, upon the sale of GBI USA Holdings, Inc. ("GBIH"), the outstanding balance of the cumulative translation adjustment loss related to GBIH included in accumulated other comprehensive income (loss) was recorded as part of the gain on sale included in net earnings from discontinued operations. As at December 31, 2011 and 2010, the Company has no foreign operations.

(n) Financial assets and financial liabilities:

The Company has classified its financial assets and liabilities as follows:

Financial instruments are classified into one of the following five categories: financial assets or liabilities at fair value through profit and loss, held-to-maturity financial assets, loans and receivables, available-for-sale financial assets and other liabilities. All financial instruments, including derivatives, are measured on the balance sheets at fair value except for loans and receivables, held-to-maturity investments and other liabilities, which are measured at amortized cost. Subsequent measurement of changes in fair value depend on the initial classification, as follows: financial assets and liabilities at fair value through profit and loss are measured at fair value and changes in fair value are recognized in profit or loss; available-for-sale assets are measured at fair value with changes in fair value recorded in other comprehensive income (loss) until the investment is derecognized or impaired at which time the amounts would be recorded in profit or loss.

(i) Loans and receivables:

Under IFRS, loans and receivables are defined as financial assets with fixed or determinable payments that are not quoted in an active market. The following items are classified as loans and receivables:

Trade receivables and escrow receivables are recognized on the date that the receivables are originated.

Cash and cash equivalents and short-term investments.

All financial assets are classified as loans and receivables, which are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction which substantially transfers all the risks and rewards of ownership of the financial asset.

(ii) Other liabilities:

Bank indebtedness, operating loan, trade and other payables, and long-term debt are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument, and are classified as other liabilities, which are measured at amortized cost. Transaction and financing costs are included in the carrying amount of long-term debt, and are recognized using the effective interest rate method.

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statements of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

3. Significant accounting policies (continued):

(o) Derivative financial instruments:

Derivative instruments are financial contracts whose value is derived from interest rates, foreign exchange rates or other financial or commodity indices. Derivative contracts are designated as financial assets at fair value through profit or loss and are measured at fair value and where not designated as a hedge, the changes in fair value are recognized in profit and loss. In 2009, the Company entered into two interest rate swap contracts used to manage the exposure to market risks from changing interest rates. These instruments have not been designated as a hedge and as a result unrealized gains and costs are recorded in finance income with a corresponding asset or liability recorded on the Consolidated Statements of Financial Position. Payments and receipts under the interest rate swap contracts are recognized as adjustments to interest expense on long-term debt and segregated when material. The Company's interest rate swap contracts were terminated on July 28, 2010.

The Company has not utilized any financial instruments to manage foreign currency exposures or exposures related to the purchase of raw materials.

(p) Government assistance and investment tax credits:

Research and development costs are reduced by related government assistance. Investment tax credits are accounted for using the cost reduction method, whereby the benefit is recognized as a reduction in the cost of the related asset or in direct costs when there is reasonable assurance the tax credits will be received and that they will be utilized to reduce taxes payable. An unconditional government grant is recognized in net earnings or loss as a reduction in the related expense when the grant becomes receivable.

(q) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(i) Warranties:

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(ii) Restructuring:

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publically. Future operating losses are not provided for.

(ii) Environmental remediation:

A provision for environmental remediation in respect of contaminated land, and the related expense, is recognized when the land contamination is identified. The Company's provision is reviewed annually for changes in regulatory requirements, discount rates, and changes in remediation cost estimates.

(r) Lease payments:

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized in profit or loss as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(s) Finance income and finance costs:

Finance income comprises interest income on funds invested, changes in fair value of financial assets at fair value through profit and loss, and net foreign exchange gains. Interest income is recognized in profit or loss as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, and net foreign exchange losses. The interest expense component of finance lease payments is recognized in profit or loss using the effective interest rate method.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)
Years ended December 31, 2011 and 2010

3. Significant accounting policies (continued):

(t) Discontinued operations:

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative Statement of Consolidated Comprehensive Income (Loss) is presented as if the operation had been discontinued from the start of the comparative period.

4. New accounting standards and interpretations:

The International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") have issued the following standards that have not been applied in preparing these Consolidated Financial Statements as their effective dates fall within annual periods beginning subsequent to the current reporting period.

Proposed standards	Description	Previous standard	Effective date (1)
IFRS 10 - Consolidated Financial Statements	Establishes principals for the presentation and preparation consolidated financial statements when an entity controls one or more other entities.	SIC-12 - Consolidation - Special Purpose Entities IAS-27 - Consolidated and Separate Financial Statements	January 1, 2013
IFRS 11 - Joint arrangements	Focuses on the rights and obligations of an arrangement rather than its legal form and requires a single method to account for interests in jointly controlled entities.	IAS 31 - Interests in Joint Ventures SIC 13 - Jointly Controlled Entities - Non-Monetary Contributions by Venturers	January 1, 2013
IFRS 12 - Disclosure of Interests in Other Entities	Establishes new and comprehensive disclosures requirement for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.	Various - no direct replacement	January 1, 2013
IFRS 13 - Fair Value measurement	Sets out a single framework for measuring fair value and disclosure requirements surrounding the inputs and assumptions used in determining fair value.	Various - no direct replacement	January 1, 2013
IFRS 9 - Financial Instruments	Initially issued in November 2009 to address the classification and measurement of financial assets. Additional guidance issued in October 2010 on the classification and measurement of financial liabilities.	IAS 39 - Financial Instruments: Recognition and Measurement	January 1, 2015

(1) Effective for annual periods on or after the stated date.

Management continues to evaluate the potential qualitative and quantitative impact of these new standards on the Company's financial statement measurements and disclosures. The Corporation does not anticipate early adopting these standards at this time.

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Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)
Years ended December 31, 2011 and 2010

5. Revenue:

Total revenue for the years ended December 31 is detailed as follows:

	2011	2010
Contract revenue	$ 26,245,846	$ 37,703,521
Sale of goods	3,179,703	5,377,529
Rendering of services	1,443,941	2,132,620
Rental revenue (note 26)	37,933	50,578
	$ 30,907,423	$ 45,264,248

The Company's largest source of revenue for both years ended December 31, 2011 and 2010 relates to a contract with a customer for the refurbishment of locomotives. As described in note 31, this customer represented a large percentage of the Company's revenue and trade receivables before the sale of CADRI (note 9). The revenue recognition policy of the Company for contracts and the sale of goods is described in note 3.

The Company had no revenue subsequent to the sale of the shares of its only remaining operating subsidiary, CADRI, on September 23, 2011. See note 9 for further details.

6. Employee compensation:

The following table reconciles the Company's compensation expense presented on the Consolidated Statements of Comprehensive Income (Loss):

	2011	2010
Wages and salaries	$ 9,099,642	$ 12,675,705
Employees benefits expenses	2,150,495	2,590,079
Share-based payment (note 22)	2,281	49,843
	$ 11,252,418	$ 15,315,627
Presented on the Consolidated Statements of Comprehensive Income (Loss)		
Cost of goods sold	$ 9,987,806	$ 12,498,411
Administration expenses	993,160	2,200,652
Selling expenses	271,452	616,564
	$ 11,252,418	$ 15,315,627

Wages and salaries expense is classified in the Consolidated Statements of Comprehensive Income (Loss) based on the related service performed.

7. Finance income and finance costs:

Net finance costs from continuing operations for the year ended December 31 are as follows:

	2011	2010
Finance income:		
Interest income on short-term deposits	$ 205,248	$ -
Interest income, other	5,323	57,621
Net foreign exchange gains	76,758	-
Net change in fair value of financial assets at fair value through profit or loss	-	12,636
	287,329	70,257
Finance costs:		
Interest expense, other	44,644	22,932
Net foreign exchange losses	-	34,113
Accretion expenses	161,664	176,770
Bank fees	31,248	261,334
	237,556	495,149
Net finance income (costs) recognized in net earnings (loss)	$ 49,773	$ (424,892)

GLOBAL RAILWAY INDUSTRIES LTD.
Notes to Consolidated Financial Statements (continued)
(In Canadian dollars)
Years ended December 31, 2011 and 2010

8. Income taxes:

		2011		2010
Current tax expense:				
Current period	$	19,328	$	347,771
Adjustment for prior periods		(15,000)		-
		4,328		347,771
Deferred tax expense (recovery):				
Origination and reversal of temporary differences		(1,688,864)		(4,294,566)
Reduction in tax rate		319,640		(203,149)
Current year losses for which no deferred tax asset was recognized		1,333,967		-
Change in unrecognized temporary differences		219,017		-
Other		(58,692)		292,867
		125,068		(4,204,848)
Income tax expense (recovery) from continuing operations		129,396		(3,857,077)
Income tax expense from discontinued operations				
Discontinued operations (excluding gain on sale)		-		810,968
Gain on sale		-		3,548,183
		-		4,359,151
Total income tax expense	$	129,396	$	502,074

Reconciliation of effective tax rate

The income tax expense (recovery) differs from the amount which would result from applying the expected income tax rate to earnings (loss) from continuing operations before income taxes. The reasons for the difference for the years ended December 31 are as follows:

			2011			2010
Net earnings (loss)		$	(14,317,854)		$	12,794,117
Total income tax expense			129,396			502,074
Net earnings (loss) excluding income tax			(14,188,458)			13,296,191
Computed expected income tax expense (recovery)	28.4%		(4,029,522)	29.0%		3,855,896
Difference resulting from:						
Non-deductible items			2,184,369			(3,860,508)
Reduction in tax rate			319,640			(203,149)
Current year losses for which no deferred tax asset was recognized			1,333,967			-
Change in unrecognized temporary differences			219,017			-
Withholding taxes on intercompany dividends			-			347,771
Other			101,925			362,064
			4,158,918			(3,353,822)
Total income tax expense		$	129,396		$	502,074

The expected income tax rate reflects the combined Federal and Provincial income tax rates for manufacturing and processing companies.

9. Sale of CADRI subsidiary:

On July 4, 2011, the Company signed a Share Purchase Agreement to sell the shares of its only remaining operating subsidiary, CADRI and its wholly owned subsidiary, CRP, to 2290693 Ontario Inc., a company controlled by the Company's Acting President and CEO, with participation of a financial partner, as well as members of the CADRI management team. On September 23, 2011, after obtaining the approval of two thirds of voting shareholders and the TSX, the Company completed the sale transaction. The purchase price of CADRI was $12,834,000 including the assumption of debt outstanding of $434,000 for a gross cash purchase price of $12,400,000. The net cash proceeds received from the sale were $10,509,000 after the Company incurred transaction costs of $616,000 and $1,000,000 was held in escrow for potential indemnification claims.

The period of the $1,000,000 escrow extends for one year from the transaction closing date of the sale of CADRI. Under the Share Purchase Agreement, the Company is accountable for 50% of escrow agent fees to be incurred during the holding period of the escrow amount.

Under the Share Purchase Agreement, the Company will remain liable for 50% of late delivery fees for VIA locomotives incurred by CADRI, including reasonable expenses for investigation and reasonable legal fees and expenses in connection with any proceeding against 2290693 Ontario Inc., to a maximum of $500,000. To date, VIA has not indicated that they plan to impose late delivery penalties on CADRI, nor have any amounts been accrued in the December 31, 2011 Consolidated Financial Statements for such penalties.

Under the Share Purchase Agreement, the Company has provided indemnifications for guaranties and warranties in respect of products sold or services rendered in the ordinary course of business before the completion of the CADRI sale transaction on September 23, 2011. The Company will be responsible for 50% of certain warranty expenses incurred by CADRI for a period of one year, to a maximum of $500,000. See note 17 for further details.

The book value of the net assets sold as well as the accounting loss on sale of CADRI are as follows:

Assets:		
Trade and other receivables	$	3,727,650
Inventories		5,976,360
Prepaid expenses		592,771
Costs and estimated earnings on uncompleted contracts in excess of billings		6,073,235
Property, plant and equipment, net		8,849,331
Deferred tax assets		4,799,570
Total assets		30,018,917
Liabilities:		
Bank indebtedness		35,547
Trade and other payables		4,374,485
Billings on uncompleted contracts in excess of costs and estimated earnings		336,665
Customer deposits		433,960
Provisions		1,176,425
Deferred tax liabilities		11,346
Total liabilities		6,368,428
Book value of net assets sold		23,650,489
Consideration received or receivable:		
Cash		11,125,837
Transaction costs		(616,461)
		10,509,376
Held in escrow		1,000,000
Total consideration		11,509,376
Loss on sale of subsidiary	$	(12,141,113)

10. Discontinued operations:

(a) 1703558 Ontario Inc. wind up:

On September 22, 2011, the remaining assets and liabilities of 1703558 Ontario Inc ("1703558", formerly Bach-Simpson) were transferred to the Company and 1703558 was dissolved to complete the wind up of Bach-Simpson which was sold in August 2010. The stated capital for the common shares of 1703558 was reduced to $1. All of the issued and outstanding shares are currently owned by the Company.

(b) GBIH and Bach-Simpson sale:

The results of the discontinued operations for the year ended December 31, 2010, comprising GBIH and it's subsidiary, G&B, sold on July 28, 2010, and Bach-Simpson which was sold on August 20, 2010, are as follows:

		2010
Sales	$	18,602,590
Direct cost of sales, salaries and general and administrative expenses		13,778,499
Earnings before undernoted items		4,824,091
Depreciation		85,378
Finance costs		875,439
Foreign exchange loss		80,609
		1,041,426
Earnings before income taxes		3,782,665
Income taxes		810,968
Earnings from operations, net of income taxes		2,971,697
Gain on disposition of discontinued operations		24,892,687
Income taxes on gain on disposition of discontinued operations		3,548,183
Realization of cumulative translation adjustment loss on sale of GBIH		177,032
Net earnings from discontinued operations	$	24,139,169

The book value of the net assets sold as well as the accounting gain on sale of GBIH and Bach-Simpson can be detailed as follows:

Assets:		
Cash	$	967,929
Trade and other receivables		3,319,774
Inventories		7,196,751
Prepaid expenses		109,863
Costs and estimated earnings on uncompleted contracts in excess of billings		197,726
Property, plant and equipment, net		3,620,967
Intangibles		8,980,039
Deferred tax assets		327,587
Total assets		24,720,636
Liabilities:		
Trade and other payables		2,664,717
Income taxes payable		1,388,942
Deferred tax liabilities		1,471,854
Total liabilities		5,525,513
Book value of net assets sold		19,195,123
Consideration received or receivable:		
Cash		38,719,924
Transaction costs		2,453,114
		36,266,810
Held in escrow		7,821,000
Total consideration		44,087,810
Gain on sale of subsidiaries	$	24,892,687

10. Discontinued operations (continued):

(b) GBIH and Bach-Simpson sale (continued):

As at December 31, 2011, there is $3,165,275 (December 31, 2010 - $7,821,000) of the combined sale price for GBIH and Bach-Simpson being held in escrow for potential indemnification claims. The escrow period extends for periods between six months and up to three years from the transaction closing dates, depending upon the nature of the indemnity and circumstances, although Management expects to receive all escrow amounts within the next twelve months. As of December 31, 2011, the Company has not been notified of any indemnification claims. As explained in more details in note 33, the Company recovered the final installment of escrowed sale proceeds from the sale of GBIH and Bach-Simpson on March 7, 2012. The amount of this installment was $3,157,642.

The Company's Consolidated Statements of Cash Flows for the year ended December 31, 2010 include the following information related to the discontinued operations of GBIH and Bach-Simpson:

Cash flows from operating activities:		
Net earnings	$	24,139,169
Adjustments for:		
Income tax recovery		3,286,683
Depreciation of plant and equipment		311,468
Variation of depreciation included in inventories		52,340
Net finance costs		178,250
Unrealized foreign exchange gain		(195,080)
Gain on sale of subsidiairies		(24,892,687)
		2,880,143
Change in:		
Trade and other receivables		(326,644)
Inventories		171,081
Costs and estimated earnings on uncompleted contracts in excess of billings		(67,090)
Prepaid expenses		(2,069)
Trade and other payables		(759,274)
Foreign exchange on accumulated foreign currency translation adjustment		51,623
Realization of cumulative translation adjustment loss on sale of GBIH		177,032
		(755,341)
Net cash from operating activities		2,124,802
Cash flows from investing activities:		
Acquisition of plant and equipment		(68,532)
Net cash used in investing activities		(68,532)
Increase in cash and cash equivalents from discontinued operations	$	2,056,270

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11. Cash and cash equivalents:

Cash and cash equivalents can be broken down as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Bank balances	$ 4,285,302	$ 3,802,767	$ 2,622,123
Term deposits	-	1,554,975	-
Cash and cash equivalents	4,285,302	5,357,742	2,622,123
Bank overdraft used for cash management purposes	-	-	(616,299)
Cash and cash equivalent in the statement of cash flow	$ 4,285,302	$ 5,357,742	$ 2,005,824

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 25.

12. Trade and other receivables:

Total trade and other receivables can be detailed as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	$ -	$ 3,964,307	$ 7,221,175
Other receivables	208,442	472,500	1,276,352
	208,442	4,436,807	8,497,527

The Company had no trade receivables due from related parties as at December 31, 2011, December 31, 2010 or January 1, 2010. The Company's other receivables are mainly for goods and services tax refunds, government grants, a government Scientific Research and Experimental Development refund and as at December 31, 2010, a retention amount of $66,291 related to one contract in progress.

At December 31, 2010, the other receivables included a retention amount of $66,291 related to one contract in progress. There was no retention amounts on the trade and other receivables as at January 1, 2010.

The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 25.

13. Inventories:

	December 31, 2011	December 31, 2010	January 1, 2010
Finished goods	$ -	$ 5,515,417	$ 10,085,312
Work in progress	-	293,782	1,434,443
Raw materials and consumables	-	555,555	2,957,643
	$ -	$ 6,364,754	$ 14,477,398

The Company had $458,557 of inventory carried at fair value less cost to sell as at December 31, 2010 and $125,633 at January 1, 2010.

For the year ended December 31, 2011, as part of operations, the Company expensed $15,654,988 of inventory (December 31, 2010 - $17,500,202), including a net inventory provision of $243,074 (December 31, 2010 - $525,761) to write-down the value of inventory to net realizable value. There were no inventory write-down reversals during 2011 or 2010.

14. Costs and estimated earnings on uncompleted contracts:

	December 31, 2011	December 31, 2010	January 1, 2010
Costs and estimated earnings on uncompleted contracts	$ -	$ 59,275,611	$ 28,369,377
Less: billings to date	-	(53,921,614)	(22,451,602)
	$ -	$ 5,353,997	$ 5,917,775

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15. Property, plant and equipment:

2010	Balance as at January 1, 2010	Additions	Discontinued operations (note 10)	Balance as at December 31, 2010
Cost:				
Land	$ 4,671,561	$ -	$ (128,370)	$ 4,543,191
Buildings	8,449,299	-	(2,592,884)	5,856,415
Machinery and equipment	12,721,668	345,908	(2,850,259)	10,217,317
Building improvements	527,164	22,915	-	550,079
Computers	1,047,568	140,703	(756,076)	432,195
Vehicles	107,485	3,114	-	110,599
Furniture	378,703	32,086	(230,723)	180,066
Leasehold improvements	148,302	3,687	(47,501)	104,488
Constructions in progress	160,790	-	(47,051)	113,739
				-
	$ 28,212,540	$ 548,414	$ (6,652,864)	$ 22,108,089

2011	Balance as at January 1, 2011	Additions	Sale of CADRI subsidiary (note 9)	Balance as at December 31, 2011
Cost:				
Land	$ 4,543,191	$ -	$ (4,543,191)	$ -
Buildings	5,856,415	-	(5,856,415)	-
Machinery and equipment	10,217,317	74,222	(10,291,539)	-
Building improvements	550,079	79,459	(629,539)	-
Computers	432,195	26,326	(458,521)	-
Vehicles	110,599	-	(110,599)	-
Furniture	180,066	5,878	(185,944)	-
Leasehold improvements	104,488	-	(104,488)	-
Constructions in progress	113,739	32,628	(146,367)	-
	$ 22,108,089	$ 218,513	$ (22,326,603)	$ -

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15. Property, plant and equipment (continued):

2010	Balance as at January 1, 2010	Depreciation for the year	Discontinued operations (note 10)	Impairment loss (note 34)	Balance as at December 31, 2010
Depreciation and impairment losses:					
Buildings	$ 582,742	$ 146,410	$ (304,893)	$ 4,111,156	$ 4,535,415
Machinery and equipment	3,557,895	696,692	(1,522,366)	4,694,009	7,426,230
Building improvements	92,605	55,010	-	252,391	400,006
Computers	783,956	51,706	(634,204)	230,737	432,195
Vehicles	100,331	3,357	(6,574)	13,485	110,599
Furniture	212,692	18,962	(127,317)	75,729	180,066
Leasehold improvements	105,449	-	(961)	-	104,488
Constructions in progress	-	-	-	-	-
	$ 5,435,670	$ 972,137	$ (2,596,315)	$ 9,377,507	$ 13,188,999

2011	Balance as at January 1, 2011	Depreciation for the year until the sale of CADRI	Sale of CADRI subsidiary (note 9)	Balance as at December 31, 2011
Depreciation and impairment losses:				
Buildings	$ 4,535,415	$ 31,754	$ (4,567,169)	$ -
Machinery and equipment	7,426,230	229,412	(7,655,642)	-
Building improvements	400,006	25,167	(425,173)	-
Computers	432,195	1,940	(434,135)	-
Vehicles	110,599	-	(110,599)	-
Furniture	180,066	-	(180,066)	-
Leasehold improvements	104,488	-	(104,488)	-
Constructions in progress	-	-	-	-
	$ 13,188,999	$ 288,273	$ (13,477,272)	$ -

Carrying amounts	As at January 1, 2010	As at December 31, 2010	As at December 31, 2011
Land	$ 4,671,561	$ 4,543,191	$ -
Buildings	7,866,557	1,321,000	-
Machinery and equipment	9,163,773	2,791,087	-
Building improvements	434,559	150,073	-
Computers	263,612	-	-
Vehicles	7,154	-	-
Furniture	166,011	-	-
Leasehold improvements	42,853	-	-
Constructions in progress	160,790	113,739	-
	$ 22,776,870	$ 8,919,090	$ -

For the year ended December 31, 2011, the Company presented in the Consolidated Statements of Comprehensive Income (Loss) the depreciation from property, plant and equipment of $288,273 (December 31, 2010 - $884,428) as cost of goods sold and $nil (December 31, 2010 - $87,709) as Administration expenses.

As explained in more details in note 34, the Company had to recognize an impairment loss of $9,337,507 for property, plant and equipment for year the ended December 31, 2010.

Following the sale of the Company's remaining operating subsidiary, CADRI, during the third quarter of 2011, the Company does not have any property, plant and equipment. See note 9 for further details.

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16. Intangible assets:

2010	Balance as at January 1, 2010	Additions	Discontinued operations (note 10)	Balance as at December 31, 2010
Cost:				
Goodwill	$ 8,980,029	$ -	$ (8,980,029)	$ -
Customer relationships	380,000	-	-	380,000
Trade names and trademarks	230,000	-	-	230,000
Non-compete agreements	210,000	-	-	210,000
	$ 9,800,029	$ -	$ (8,980,029)	$ 820,000

2011	Balance as at January 1, 2011	Additions	Disposals	Sale of CADRI subsidiary (note 9)	Balance as at December 31, 2011
Cost:					
Goodwill	$ -	$ -	$ -	$ -	$ -
Customer relationships	380,000	-	-	(380,000)	-
Trade names and trademarks	230,000	-	-	(230,000)	-
Non-compete agreements	210,000	-	-	(210,000)	-
	$ 820,000	$ -	$ -	$ (820,000)	$ -

2010	Balance as at January 1, 2010	Depreciation for the year	Impairment loss (note 34)	Balance as at December 31, 2010
Amortization and impairment losses:				
Goodwill	$ -	$ -	$ -	$ -
Customer relationships	80,750	86,083	213,167	380,000
Trade names and trademarks	97,750	75,103	57,147	230,000
Non-compete agreements	89,250	68,571	52,179	210,000
	$ 267,750	$ 229,757	$ 322,493	$ 820,000

2011	Balance as at January 1, 2011	Depreciation for the year	Sale of CADRI subsidiary (note 9)	Balance as at December 31, 2011
Amortization and impairment losses:				
Goodwill	$ -	$ -	$ -	$ -
Customer relationships	380,000	-	(380,000)	-
Trade names and trademarks	230,000	-	(230,000)	-
Non-compete agreements	210,000	-	(210,000)	-
	$ 820,000	$ -	$ (820,000)	$ -

Carrying amounts	As at January 1, 2010	As at December 31, 2010	As at December 31, 2011
Goodwill	$ 8,980,029	$ -	$ -
Customer relationships	299,250	-	-
Trade names and trademarks	132,250	-	-
Non-compete agreements	120,750	-	-
	$ 9,532,279	$ -	$ -

For the year ended December 31, 2011, the Company presented in the Consolidated Statements of Comprehensive Income (Loss) the amortization from the intangible assets of $nil (December 31, 2010 - $229,757) as Administration expenses.

As explained in more details in note 34, the Company had to recognized an impairment loss of $322,493 related to the intangibles for the year ended December 31, 2010.

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17. Provisions:

The following table presents the Company's provisions:

	Management restructuring *(1)*	Warranties *(2)*	Environmental remediation *(3)*	Total
Balance at January 1, 2010:	$ 824,942	$ 374,894	$ 765,514	$ 1,965,350
Charges	285,000	359,219	-	644,219
Utilization	(824,942)	(268,299)	-	(1,093,241)
Accretion	-	58,115	118,655	176,770
Balance at December 31, 2010	285,000	523,929	884,169	1,693,098
Less: short-term provisions	(285,000)	(313,230)	(205,492)	(803,722)
Long-term provisions	$ -	$ 210,699	$ 678,677	$ 889,376
Balance at January 1, 2011:	$ 285,000	$ 523,929	$ 884,169	$ 1,693,098
Charges	-	372,637	-	372,637
Utilization	(280,500)	(515,975)	-	(796,475)
Accretion	-	58,878	102,787	161,665
Translation and other	(4,500)		.	(4,500)
Sale of CADRI subsidiary September 23, 2011 (note 9)	-	(189,469)	(986,956)	(1,176,425)
Balance at December 31, 2011	-	250,000	-	250,000
Less: short-term provisions	-	(250,000)	-	(250,000)
Long-term provisions	$ -	$ -	$ -	$ -

(1) At the end of 2009, the restructuring of the management team was planned with the expected sale of the two subsidiaries, GBIH and Bach-Simpson. The Chairman, CEO, CFO and Chief Marketing officers resigned and the US office closed with the sale of the two subsidiaries. For the year ended December 31, 2010, management restructuring expenses totalling $824,942 was then paid to the resigned US officers of GBIH and Bach-Simpson and US $285,000 was accrued as severance costs payable to the President of CADRI (CEO) and Company's Acting President and Chief Executive Officer. The US based officers were replaced by the President of CADRI (CEO) and the VP Finance of CADRI (CFO) to consolidate management in Canada. Amounts were not discounted as the management restructuring provisions are all short-term. As described in more details in note 30, there was no outstanding management restructuring provision for the year ended December 31, 2011, as a severance payment of $280,500 was made to the President of CADRI who was also the Company's Acting President and Chief Executive Officer during the fourth quarter of 2011, subsequent to the sale of CADRI.

(2) The contract with the Company's largest customer, prior to the sale of CADRI, required the Company to provide two years parts and labour warranty from date of final acceptance of a delivered locomotive as well as a one year warranty on repairs. Before July 1, 2010, the warranty reserve was established at 2% of recognized revenue. As more locomotives were delivered, cumulative warranty repair expenses incurred by the Company supported the reduction of the percentage to 1% of recognized revenue. The warranty provision was calculated with a discount rate of 15.5% (December 31, 2010 - 15.5%). Under the Share Purchase Agreement, the Company is responsible for 50% of any warranty claims received by CADRI relating to items sold or services rendered prior to September 23, 2011 to a maximum of $500,000. The Company has recorded accordingly a provision of $250,000 as at December 31, 2011.

(3) In connection with the acquisition of land and building in prior years, the Company identified an environmental contamination. Since it is probable that CADRI will sustain costs related to environmental assessment and remediation over the next five years, an environmental remediation provision in the amount of $765,514 has been recorded as at January 1, 2010. This provision amount has been calculated using a discount rate of 15.5% (December 31, 2010 - 15.5%).

18. Trade and other payables:

	December 31, 2011	December 31, 2010	January 1, 2010
Trade and other payables due to related parties (note 30)	$ 3,869	$ 344,012	$ 233,098
Other trade payables	-	3,538,123	4,983,281
Non-trade payables and accrued expenses	219,700	2,377,698	2,808,031
	$ 223,569	$ 6,259,833	$ 8,024,410

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

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19. Deferred tax assets and liabilities:

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following:

	2011	2010
Deductible temporary differences	$ 3,867	$ -
Tax losses	1,542,018	-
	$ 1,545,885	$ -

The unrecognized non-capital losses expire as follows:

	2011	2010
2026	$ 98,407	$ -
2027	704,561	-
2031	861,630	-
	$ 1,664,598	$ -

Net capital losses of $4,503,000 carry forward indefinitely and expire on acquisition of control. The other deductible temporary differences do not expire under current income tax legislation.

Deferred tax assets have not been recognized because Management believes it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Property, plant and equipment	$ -	$ 2,609,604	$ -	$ (1,997,899)	$ -	$ 611,705
Intangible assets	-	-	-	500,060	-	500,060
Provisions	-	635,212	-	-	-	635,212
Tax loss carry-forwards	-	3,148,711	-	-	-	3,148,711
Inventories	-	-	-	-	-	-
Share-based payment transactions	-	5,415	-	-	-	5,415
Management contract payments	-	-	-	-	-	-
Other items	-	54,721	-	(41,914)	-	12,807
Tax assets (liabilities)	$ -	$ 6,453,663	$ -	$ (1,539,753)	$ -	$ 4,913,910

Movement in temporary differences during the year

	Balance January 1, 2010	Recognized in discontinued operations (note 10)	Recognized in profit or loss	Balance December 31, 2010	Recognized in sale of subsidiary (note 9)	Recognized in profit or loss	Balance December 31, 2011
Property, plant and equipment	$ (2,342,900)	$ 52,898	$ 2,901,706	$ 611,704	$ (346,420)	$ (265,284)	$ -
Intangible assets	534,672	(1,317,937)	1,283,325	500,060	-	(500,060)	-
Provisions	484,225	(43,931)	(49,802)	390,492	(331,456)	(59,036)	-
Tax loss carry-forwards	4,814,148	-	(1,665,437)	3,148,711	(3,799,921)	651,210	-
Inventories	180,322	(37,139)	101,537	244,720	(280,481)	35,761	-
Share-based payment transactions	32,709	(2,129)	(25,165)	5,415	-	(5,415)	-
Management contract payments	(1,113,405)	-	1,113,405	-	-	-	-
Other items	139,900	(672,371)	545,279	12,808	(30,564)	17,756	-
	$ 2,729,671	$ (2,020,609)	$ 4,204,848	$ 4,913,910	$ (4,788,842)	$ (125,068)	$ -

20. Capital and other components of equity:

(a) Share capital:

	2011	2010
Common shares:		
On issue at January 1	15,252,399	15,239,900
Exercise of share options	11,666	12,499
On issue at December 31	15,264,065	15,252,399

In October 2011, 11,666 common shares were issued to an executive officer as a result of the exercise of vested options arising from the 2008 share option program granted to key management. Options were exercised at an average price of $0.72 per option. All issued shares were fully paid.

During the fourth quarter of 2010, 12,499 common shares were issued to a member of the Board of Directors as a result of the exercise of vested options arising from the 2008 share option program granted to key management. Options were exercised at an average price of $0.72 per option. All issued shares were fully paid.

The authorized share capital of the Company consists of an unlimited number of voting common shares, and an unlimited number of preferred shares. Preferred shares may be issued in one or more series, each consisting of a number of preferred shares, as determined by the Board of Directors who also may fix the designations, rights, privileges, restrictions and conditions attaching to the shares of each series of preferred shares. As at December 31, 2011, December 31, 2010 and January 1, 2010, the Company had not issued any preferred shares.

(b) Other components of equity:

Contributed surplus is increased by the compensation expense recorded for stock options granted to key management of the Company and is reduced for options exercised by the related compensation expense previously recognized.

The accumulated other comprehensive income (loss) comprised the change of cumulative translation adjustment ("CTA") for all foreign currency differences arising from the translation of the financial statements of foreign operations. Following the sale of its foreign subsidiary GBIH (note 10), the outstanding balance of the cumulative translation adjustment loss related to GBIH included in accumulated other comprehensive (loss) income was recorded as part of the gain on sale included in earnings from discontinued operations.

(c) Dividends:

On November 2, 2011, the Company paid a dividend of $1.00 per qualifying common share for a total of $15,264,065. The payment followed the announcement that its Board of Directors had authorized the commencement of the wind-up of Global Railway Industries Ltd, all in accordance with the resolution passed at the special meeting of the Company's shareholders held on August 30, 2011. The Company had not declared or paid any dividends before. The dividend payment was made as a return of capital to shareholders of record at the close of business on October 25, 2011. The Company intends to distribute the remainder of its available cash to shareholders in one or more instalments as its liabilities and contingent obligations are settled. The amount and timing of these distributions have yet to be determined by Management.

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21. Earnings (loss) per share:

The computation for basic and diluted common shares outstanding for the years ended December 31 used in the earnings (loss) per share calculation are as follows:

Net earnings:

	2011	2010
Weighted average number of common shares outstanding:		
Basic	15,253,371	15,252,399
Effect of share options	-	5,683
Diluted	15,253,371	15,258,082

Continuing operations:

	2011	2010
Weighted average number of common shares outstanding:		
Basic	15,253,371	15,252,399
Effect of share options	-	-
Diluted	15,253,371	15,252,399

Discontinued operations:

	2011	2010
Weighted average number of common shares outstanding:		
Basic	15,253,371	15,252,399
Effect of share options	-	5,683
Diluted	15,253,371	15,258,082

Share options to purchase zero (December 31, 2010 - 277,500) common share are excluded from the weighted average common shares in the calculation of diluted earnings (loss) per share as they are not dilutive. There were no share options outstanding as at December, 2011 (December 31, 2010 - 277,500).

The average market value of the Company's shares for purpose of calculating the dilutive of outstanding shares options was based on quoted market prices for the period during which the options were outstanding.

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22. Share-based payment:

(a) Share option program (equity-settled):

Over the years, the Company established share option programs that entitled key management personnel to purchase shares in the Company. In accordance with these programs, options are exercisable at the market price of the shares at the date of grant.

Other than service requirements, there were no specific vesting conditions for the options granted to key management; accordingly, the options granted vested in tranches in the quantity and years indicated below.

Details of the outstanding options granted to key management as at January 1, 2010 are as follows:

Grant date	Contractual lives of options	Number of stock options	Weighted average exercise price	Vesting options quantity (in thousands) and years
June 2005	5 years	30,000	$ 3.70	10 in 2006, 2007 and 2008
November 2005	5 years	85,000	1.30	30 in 2005 and 2006 and 25 in 2007
January 2006	5 years	100,000	2.00	50 in 2006 and 2007
August 2006	5 years	1,942	3.10	1.9 in 2007
November 2006	9 years	100,000	2.84	50 in 2007 and 2008
December 2006	10 years	125,000	3.12	62.5 in 2007 and 2008
April 2007	10 years	50,000	3.30	25 in 2008 and 2009
August 2007	7 years	140,000	4.90	20 in 2007, 2008 and 100 in 2009
November 2007	7 years	210,000	4.35	70 in 2008, 2009 and 2010
November 2007	5 years	50,000	4.35	25 in 2008 and 2009
December 2007	5 years	65,000	4.59	21.7 in 2008, 2009 and 2010
March 2008	5 years	50,000	4.25	16.6 in 2009, 2010 and 2011
June 2008	5 years	7,500	3.82	7.5 in 2009
December 2008	5 years	107,500	0.72	40.8 in 2009, 33.3 in 2010 and 2011
		1,121,942	$ 3.30	

(b) Disclosure of the share option program:

	2011		2010	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding as at January 1	$ 4.12	277,500	$ 3.30	1,121,942
Exercised	0.72	(11,666)	0.72	(12,499)
Cancelled or expired	4.27	(265,834)	3.05	(831,943)
Outstanding as at December 31	-	-	4.12	277,500
Exercisable as at December 31	$ -	-	$ 4.19	271,666

Following the sale of CADRI (note 9), there was an immediate cancellation of 215,834 share options, of which 210,000 were owned by the President and CEO of the Company. Moreover, there was a 90-day period where two executive officers were given the opportunity to exercise their vested options before their cancellation in December 2011. Only one executive officer exercised 11,666 share options during this period.

The options that were outstanding as at December 31, 2010 had an exercise price in the range of $0.72 to $4.35 and an weighted average contractual life of 6.5 years.

The weighted average price at the date of exercise for share options exercised in 2011 was $1.55 (2010 - $1.35).

(c) Share-based payment expense:

The share-based payment expense for the year ended December 31, 2011 was $2,281 (December 31, 2010 - $49,843).

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23. Customer deposits:

As at December 31, 2010 the Company had a balance of $1,500,491 (January 1, 2010 - $3,743,396) of prepayments received from its largest customer and had issued an irrevocable standby letter of credit in the amount of $1,000,000 (January 1, 2010 - $1,000,000) as security against these prepayments.

24. Operating loan and long-term debt:

This note provides information about the contractual terms of the Company's interest bearing loans and debt, which were measured at amortized cost.

	December 31, 2011	December 31, 2010	January 1, 2010
Current liabilities:			
Operating loan	$ -	$ -	$ 6,720,000
Current portion of long-term debt (term loan)	-	-	17,380,000
Letters of credit issued	-	1,073,108	1,059,535
Total amount drawn upon credit facilities	-	1,073,108	25,159,535
Total amount of available facilities	-	1,200,000	27,380,000
Total undrawn portion of credit facilities	$ -	$ 126,892	$ 2,220,465

In 2007, the Company entered into a credit agreement shared between two Canadian banks (the "Lenders"). The agreement comprised an operating loan which was used to finance ongoing operating and working capital requirements as well as a five year term loan to finance the acquisition of CADRI, working capital, capital expenditures and other acquisitions. Both the operating loan and term loan were in Canadian dollars. At that time, the term loan was expected to mature in 2012.

As originally agreed with the Lenders, the operating loan beared interest at a floating rate between nil and 0.25% over the Canadian bank prime lending rate, or between 1.0% and 1.5% over the applicable bankers acceptance rate, depending upon the Company's ratio of funded debt to earnings before interest, income taxes, depreciation and amortization.

As originally agreed with the Lenders, the term loan beared interest at a floating rate between nil and 0.5% over the Canadian bank prime lending rate, or between 1.25% and 1.75% over the applicable bankers acceptance rate, depending upon the Company's ratio of funded debt to earnings before interest, income, taxes, depreciation and amortization.

As at January 1, 2010, the term loan, which was initially due in 2012, was classified as current due to breaches of covenants. The operating loan and term loan were fully repaid in 2010, from the proceeds of the sale of GBIH and Bach-Simpson (see note 10). The carrying amounts of both the operating loan and term loan as at January 1, 2010 approximated their fair values due to their repayments which were expected to be made by the Company within the next year to the Lenders. As at January 1, 2010, transaction and financing costs in the amount of approximately $178,000 were included in the carrying amount of the amount oustanding under the term facility, and were recognized using the effective interest method.

On September 24, 2010, the Company negotiated a new Credit Agreement with one of its Lenders, establishing a $1,200,000 demand loan revolving facility; as well as ancillary facilities for corporate credit cards and electronic funds transfers in the aggregate maximum amount of $550,000. Security for the new facilities includes guarantees and a cash collateral pledge in the amount of $1,250,000. The facility bears interest at Canadian bank prime rate plus 0.25%. As at December 31, 2010 no amounts were drawn against these new facilities.

As of December 31, 2011, the Company had no credit agreement in place.

25. Financial instruments:

(a) Credit risk:

(i) Exposure to credit risk:

The carrying amount of financial assets represents to maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Carrying amount	December 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents	$ 4,285,302	$ 5,357,742	$ 2,622,123
Short-term investments	2,782,201	6,267,780	-
Trade and other receivables	208,442	4,436,807	8,497,527
Escrow receivables	4,167,084	7,821,000	-
	$ 11,443,029	$ 23,883,329	$ 11,119,650

The carrying amount of the financial assets of the Company approximate their fair values due to the relatively short periods to maturity of the instruments.

The Company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the Consolidated Statement of Financial Position are net of allowances for impairment, estimated based on prior experience.

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic locations of the customers was:

Carrying amount	December 31, 2011	December 31, 2010	January 1, 2010
Domestic	$ 208,442	$ 2,853,106	$ 4,373,513
United States	-	1,356,761	3,562,470
Other	-	226,940	561,544
	$ 208,442	$ 4,436,807	$ 8,497,527

As described in note 31, the Company's largest customer represented approximately 55% of the total trade and other receivables carrying amount as at December 31, 2010 (January 1, 2010 - 25%).

25. Financial instruments (continued):

(a) Credit risk (continued):

(ii) Impairment losses:

The aging of trade receivables at the reporting date was:

	December 31, 2011 Gross	December 31, 2011 Impairment	December 31, 2010 Gross	December 31, 2010 Impairment	January 1, 2010 Gross	January 1, 2010 Impairment
Not past due	$ -	$ -	$ 3,277,154	$ -	$ 4,896,409	$ -
Past due 0-30 days	-	-	430,196	-	1,626,510	-
Past due 31-120 days	-	-	260,557	(3,600)	579,741	(19,486)
More than 120 days	-	-	85,017	(85,017)	202,630	(64,629)
Trade receivables	-	-	4,052,924	(88,617)	7,305,290	(84,115)
Other receivables (note 12)	208,442	-	507,500	(35,000)	1,326,352	(50,000)
	$ 208,442	$ -	$ 4,560,424	$ (123,617)	$ 8,631,642	$ (134,115)

Following the sale of GBIH and Bach-Simpson in 2010 and until the sale of CADRI in the third quarter of 2011, the Company had one customer that represented a significant portion of the total trade receivables (see note 31).

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2011	2010
Balance at January 1	$ 123,617	$ 134,115
Reduction for discontinued operations (note 10)	-	(19,822)
Allowance for impairment, trade receivables	52,663	32,819
Allowance for impairment, other receivables	-	(15,000)
Write-off	(34,625)	(8,495)
Reduction for sale of subsidiary (note 9)	(141,655)	-
Balance at December 31	$ -	$ 123,617

Prior the sale of CADRI in the third quarter of 2011, the Company believed that its allowance for impairment was sufficient to reflect the related credit risk. Trade receivables due for more than 120 days were analyzed and an allowance for impairment was recognized considering the customers' credit ratings and historic payment behaviour. The allowance account in respect of trade receivables was used to record impairment loss unless the Company was satisfied that no recovery of the amount owing was possible, at which point the amounts were considered irrecoverable and were written off against the financial asset directly.

As at December 31, 2010, $8,495 was written off after some customers indicated that they were not able to pay their outstanding balances. The allowance for impairment of $32,819 in 2010 relates to a customer dispute. The Company wrote off of $34,625 during 2011 for a customer that was not able to pay its outstanding balance.

(b) Liquidity risk:

As of December 31, 2010 and 2011, the Company did not have any derivative financial liabilities. The only non-derivatives financial liabilities of the Company relates to the trade and other payables.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

December 31, 2011	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Trade and other payables	223,569	(223,569)	(223,569)	-	-	-

December 31, 2010	Carrying amount	Contractual cash	6 months or less	6-12 months	1-2 years	2-5 years
Trade and other payables	6,259,833	(6,259,833)	(6,259,833)	-	-	-

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amount.

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25. Financial instruments (continued):

(c) Currency risk:

(i) Exposure to currency risk:

The Company's exposure to foreign currency risk was as follows based on notional amounts:

December 31, 2011	CAD	USD	Total
Cash and cash equivalents	$ 4,282,433	$ 2,869	$ 4,285,302
Short-term investments	2,782,201	-	2,782,201
Trade and other receivables	208,442	-	208,442
Escrow receivables	4,167,084	-	4,167,084
Trade and other payables	(223,569)	-	(223,569)
Provisions	(250,000)	-	(250,000)
Gross Statement of Financial Position exposure	$ 10,966,591	$ 2,869	$ 10,969,460

December 31, 2010	CAD	USD	Total
Cash and cash equivalents	$ 5,231,649	$ 126,094	$ 5,357,742
Short-term investments	6,267,780	-	6,267,780
Trade and other receivables	2,876,764	1,560,043	4,436,807
Escrow receivables	7,224,000	597,000	7,821,000
Trade and other payables	(4,822,431)	(1,437,402)	(6,259,833)
Provisions	(1,693,098)	-	(1,693,098)
Gross Statement of Financial Position exposure	$ 15,084,664	$ 845,735	$ 15,930,398

January 1, 2010	CAD	USD	Total
Cash and cash equivalents	$ 114,424	$ 2,507,699	$ 2,622,123
Trade and other receivables	4,370,222	4,127,305	8,497,527
Operating loan	(6,720,000)	-	(6,720,000)
Bank indebtedness	(616,299)	-	(616,299)
Trade and other payables	(6,095,526)	(1,928,884)	(8,024,410)
Provisions	(1,965,350)	-	(1,965,350)
Gross Statement of Financial Position exposure	$ (10,912,529)	$ 4,706,120	$ (6,206,409)

(ii) Sensitivity analysis:

A strengthening of the Canadian dollar, as indicated below, against the United States dollar at December 31 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below.

Effect	Equity	Profit or (loss)
December 31, 2011:		
United States dollar (10 percent strengthening)	$ 287	$ 287
December 31, 2010:		
United States dollar (10 percent strengthening)	84,573	84,573

A weakening of the Canadian dollar against the United States currency at December 31 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

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25. Financial instruments (continued):

(d) Interest rate risk:

At the reporting date, the interest rate profile of the Company's interest-bearing financial instruments was:

	December 31, 2011	December 31, 2010
Fixed rate instruments		
Financial assets	$ 1,631,888	$ 11,888,013
Variable rate instruments		
Financial assets	5,317,397	3,755,742
	$ 6,949,285	$ 15,643,755

The escrow receivables and certain short-term investments and term deposits (note 11) compose the Company's fixed rate financial assets while other short-term investments and term-deposits compose the Company's variable rate financial assets for the years ended December 31, 2011 and 2010. The Company had no interest bearing financial liabilities at December 31, 2011 or 2010.

The Company does not account for any fixed rate financial assets at fair value through profit or loss.

A change of 100 basis points in interest rates would have increased or decreased equity by $51,843 for the year ended December 31, 2011 (December 31, 2010 - $7,297).

(e) Fair values:

(i) Fair values versus carrying amounts:

	2011		2010	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at amortized costs:				
Cash and cash equivalents	$ 4,285,302	$ 4,285,302	$ 5,357,742	$ 5,357,742
Short-term investments	2,782,201	2,782,201	6,267,780	6,267,780
Trade and other receivables	208,442	208,442	4,436,807	4,436,807
Escrow receivables	4,167,084	4,167,084	7,821,000	7,821,000
	11,443,029	11,443,029	23,883,329	23,883,329
Liabilities carried at amortized costs:				
Trade and other payables	223,569	223,569	6,259,833	6,259,833

The carrying amount of the financial assets and liabilities of the Company approximate their fair values due to the relatively short periods to maturity of the instruments.

26. Operating leases:

(a) Lease as a lessee:

Operating lease rentals are payable as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Less than 1 year	$ -	$ 77,056	$ 241,658
Between 1 and 5 years	-	183,580	839,265
	$ -	$ 260,636	$ 1,080,923

As of January 1, 2010, the Company leased office space and equipment as well as forklifts. After the sale of GBIH and Bach-Simpson in 2010, the Company had leases for office equipment and forklifts. After the sale in the third quarter of 2011 of the Company's last operating subsidiary, CADRI, the Company no longer has any operating leases. The leases typically ran for a period of 1 to 10 years.

(b) Lease as a lessor:

The Company began leasing a portion of one of its buildings in 2008 for a five year term with no renewal clause. The future minimum lease payments under the lease agreement were as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Less than 1 year	$ -	$ 50,578	$ 50,578
Between 1 and 5 years	-	151,734	202,312
	$ -	$ 202,312	$ 252,890

After December 31, 2011, the Company will not have any rental income as the lessor under the lease agreement was signed with CRP, the wholly owned subsidiary of CADRI, which was sold in September 2011.

For the year ended December 31, 2011, $37,933 was recognized as rental income in profit or loss (December 31, 2010 - $50,578).

27. Determination of fair values:

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purpose based on the following methods.

Share-based payment transactions:

The fair value of the executives officers share options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour) and the risk-free interest rate (based on government bonds).

The carrying amount of the Company's cash and cash equivalents, short-term investments, trade and other receivables, escrow receivables and trade and other payables approximate their fair values due to the relatively short periods to maturity of the instruments.

28. Financial risk management:

The Company has exposure to credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for measuring management risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

(i) Risk management framework:

The Company's primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis. Risk management strategies, as discussed below, are designed and implemented to ensure the Company's risks and the related exposure are consistent with the business objectives and risk tolerance.

(ii) Credit risk:

Credit risk is the risk of financial loss of the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations or if there is a concentration of transactions carried out with the same counterparty. The Company's credit risk, before the sale of its last operating subsidiary, CADRI, during the third quarter of 2011, was primarily due to its trade receivables.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate are also considered as these factors may have an influence on credit risk. Following the sale of GBIH and Bach-Simpson in 2010 and until the sale of CADRI in the third quarter of 2011, the Company had one customer that represented a significant portion of the total trade receivables (see note 31). This resulted in the Company having a greater concentration of credit risk with this customer who is a Crown Corporation with a strong credit rating.

Prior to the sale of CADRI in the third quarter of 2011, the Company established an allowance for impairment that represented its estimated of incurred losses in respect of trade receivables. The main component of this allowance related to individually significant exposures for trade receivables that were considered impaired, which were defined as amounts outstanding beyond normal credit terms and conditions for the respective customers and, based on Management's evaluation, a risk of non-payments that existed.

(iii) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company manages liquidity risk by continuously monitoring cash flows to ensure that it will always have sufficient liquidity to meet its liabilities when due.

As at December 31, 2011, the Company does not have any line of credit or similar facility as financial liabilities have considerably decreased following the sale of its remaining operating subsidiary, CADRI, during the third quarter of 2011. Management expects to have sufficient cash from its short-term investments and escrow receivables in order to settle future liabilities and obligations until the wind-up of the Company which is expected in less than 24 months.

(iv) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

As at December 31, 2011, the Company is exposed to financial risk that arises from interest rate fluctuations for certain term deposits and short-term investments. Prior to the sale of CADRI in the third quarter of 2011, the Company was exposed to currency risk of sales and purchases that were denominated in United States dollars and was exposed to risk with respect to fluctuations in exchange rates between Canadian and United States dollars. The Company did not use derivative instruments to reduce its exposure to foreign currency.

(v) Capital management:

The Company's objectives in managing capital are to ensure sufficient liquidity to support its business requirements. The Company defines capital that it manages as the aggregate of its equity, which is comprised of issued share capital, contributed surplus and retained earnings.

The Company manages its capital structure and makes adjustments to it in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, repay long-term debt or issue shares, or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets.

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29. Segmented information:

The Company's operations were conducted through one reportable business segment which primarily remanufactured and repaired locomotives and railcars. The following is a summary of the Company's sales operations, and property, plant and equipment, by the geographic location of the customers and assets:

2011	International	United States	Canada	Total
Sales for the year ended December 31	$ 597,341	$ 2,967,255	$ 27,342,827	$ 30,907,423

2010	International	United States	Canada	Total
Sales for the year ended December 31	$ 821,891	$ 4,374,326	$ 40,068,031	$ 45,264,248
Property, plant and equipment at December 31	-	-	8,919,090	8,919,090

30. Related party transactions:

The Company's related parties can be detailed as follows:

(i) Key management personnel of the Company, which includes the President and Chief Executive Officer, the Chief Financial Officer, Presidents and executive officers of subsidiaries, as well as all members of the Board of Directors.

(ii) A company owned by the Company's Acting President and Chief Executive Officer from which CADRI purchased inventory before its sale during the third quarter of 2011.

(iii) A company owned by the Company's Acting President and Chief Executive Officer to which monthly management service fees are paid.

(iv) 2290693 Ontario Inc., a company controlled by the Company's Acting President and Chief Executive Officer to which CADRI and its wholly owned subsidiary, CRP, were sold to during the third quarter of 2011 (see note 9).

The Company's related party transactions can be detailed as follows:

(a) Inventory purchases:

In the normal course of business, CADRI purchases inventory from a company owned by the Company's Acting President and Chief Executive Officer. The amount of inventory purchased for the year ended December 31, 2011, prior to the sale of CADRI, was approximately US $2,303,000 (2010 - US $3,898,000) and was made under the terms and conditions comparable to those of CADRI's other inventory purchases.

(b) Trade and other payables due to related parties:

	December 31, 2011	December 31, 2010	January 1, 2010
Accounts payable for inventory purchases (note 30 a)	$ -	$ 319,927	$ 208,098
Accounts payable for management services (note 30 d)	-	24,085	25,000
Other accounts payable due to related parties	3,869	-	-
	$ 3,869	$ 344,012	$ 233,098

All outstanding balances due to related parties are to be settled in cash within one month of the reporting date.

As described in more details in notes 9 and 17, the Company is responsible, under the Share Purchase Agreement, for 50% of any warranty claims received by CADRI relating to items sold or services rendered prior to September 23, 2011 to a maximum of $500,000. The Company has recorded a provision of $250,000 as at December 31, 2011.

(c) Sale of CADRI subsidiary:

As described in more details in note 9, the Company signed on July 4, 2011, a Share Purchase Agreement to sell the shares of its only remaining operating subsidiary, CADRI and its wholly owned subsidiary, CRP, to 2290693 Ontario Inc., a company controlled by the Company's Acting President and CEO. On September 23, 2011, after obtaining the approval of two thirds of voting shareholders and the TSX, the Company completed the sale transaction. The purchase price of CADRI was $12,834,000 including the assumption of debt outstanding of $434,000 for a gross cash purchase price of $12,400,000, before transactions costs and purchase price adjustments.

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30. Related party transactions (continued):

(d) Key management personnel compensation:

During the year ended December 31, 2011, the Company expensed $742,919 (December 31, 2010 - $1,737,188) of short-term benefits for key management personnel, of which approximately $280,000 (December 31, 2010 - $903,000) was paid for management services provided by a company owned by the Company's Acting President and Chief Executive Officer. The Company also paid, as part of the short-term benefits, a bonus of $100,000 (December 31, 2010 - $25,000) for the successful sale of CADRI (December 31, 2010 - GBIH and Bach-Simpson) to a company owned by the Company's Acting President and Chief Executive Officer as well as $362,500 (December 31, 2010 - $834,921) for the salaries of the Chief Financial Officer and executives officers (December 31, 2010 - the salaries paid by the Company includes the salaries for the Presidents of GBIH and Bach-Simpson).

Subsequent to the sale of CADRI in the third quarter of 2011, the Company paid monthly fees of $15,000 for management services provided by the Company's Acting President and Chief Executive Officer as well as the Chief Financial Officer. As at December 31, 2011, there was no unpaid fees for management services.

As of January 1, 2010, December 31, 2010 and December 31, 2011 there were no loans made to executives officers and directors and there was no non-cash benefits paid to them. Prior to the sale of CADRI in September 2011, executive officers participated in the Company's share option program (see note 22 for more details).

As described in more details in note 17, the Company paid in 2010 severances of $824,942 to executive officers of GBIH and Bach-Simpson, after the sale of the two subsidiaries. During the fourth quarter of 2011, following the sale of the CADRI subsidiary, severances of $165,798 and $280,500 were paid to an executive officer and to the President and CEO of the Company.

Board of directors payments include stipends as well as bonuses for the successful sale of subsidiaries. In 2010, the Company paid stipends of $113,742 and bonuses totalling $100,000 for the successful sale of GBIH and Bach-Simpson. In 2011, the Company paid stipends of $100,000 as well as a bonus of $25,000 to a director of the Company for the successful sale of CADRI subsequently to the unanimous approval of the other directors.

Key management personnel and director compensation comprised:

	2011	2010
Short-term employee benefits (note 30 d)	$ 742,919	$ 1,737,188
Severance payments	446,298	824,942
Board of directors payments	125,000	213,742
Share-based payments (note 22)	2,281	49,843
	$ 1,316,498	$ 2,825,715

(e) Key management personnel and director transactions:

Directors and executive officers of the Company control 26.2% of the voting shares of the Company, of which 25.8% is control by one director and his associates. The common shares of this director were acquired for investment purposes.

The aggregate value of transactions relating to key management personnel and entities over which they have control or significant influence were as follows:

	Transactions	2011	2010
Director	Legal fees	$ -	$ 6,864

During the year 2010, a member of the Board of Directors was a partner in a law firm to which the Company paid for services in relations to advice over claims settlement.

There was no outstanding balance due to this law firm as at December 31, 2010.

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31. Economic dependence:

(a) For the year ended December 31, 2011, sales from the Company's largest customer totalled approximately $20,592,000, or 67% (December 31, 2010 - $23,491,000 or 71%) of the Company's total sales from operations.

(b) Prior to the sale of CADRI (note 9), trade receivables from the Company's largest customer was approximately 55% of the total trade and other receivables as at December 31, 2010 (January 1, 2010 - 25%).

32. Group entities:

		December 31, 2011	December 31, 2010	January 1, 2010
	Country of incorporation		Ownership interest	
Significant subsidiaries:				
CAD Railway Industries	Canada	-	100	100
Bach-Simpson	Canada	-	-	100
GBIH	United States	-	-	100

The Company does not have any operating subsidiaries as at December 31, 2011 after the sale of CADRI in September 2011, Bach-Simpson in August 2010 and GBIH in July 2010. See notes 9 and 10 for further details.

33. Subsequent event:

On March 7, 2012, the Company recovered the final installment of escrowed sale proceeds from the sale of GBIH and Bach-Simpson. The amount of this installment was $3,157,642.

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34. Explanation of transition to IFRS:

The accounting policies set out in note 3 have been applied in preparing the Consolidated Financial Statements for the year ended December 31, 2011, the comparative information for both the year ended December 31, 2010 and in the preparation of an opening IFRS Statement of Financial Position at January 1, 2010 (the Company's date of transition).

In preparing its IFRS Statement of Financial Position and Comparative Statement of Comprehensive Income's information for the year ended December 31, 2010, the Company has adjusted amounts reported previously in Financial Statements prepared in accordance with Canadian GAAP (the Company's previous GAAP).

An explanation of how the transition from Canadian GAAP to IFRSs has affected the Company's financial position, financial performance and cash flows are set out in the following tables and the notes that accompany the tables.

(a) Reconciliation of consolidated equity:

The following is a reconciliation of the Company's consolidated equity as at January 1, 2010:

		January 1, 2010		
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets:				
Cash and cash equivalents		$ 2,622,123	$ -	$ 2,622,123
Trade and other receivables		8,497,527	-	8,497,527
Inventories		14,477,398	-	14,477,398
Costs and estimated earnings on uncompleted contracts in excess of billings		5,917,775	-	5,917,775
Prepaid expenses		1,014,439	-	1,014,439
Deferred tax assets	A	475,535	(475,535)	-
		33,004,797	(475,535)	32,529,262
Non-current assets:				
Property, plant and equipment		22,776,870	-	22,776,870
Intangible assets	J	552,250	8,980,029	9,532,279
Deferred tax assets	A	5,497,076	331,535	5,828,611
Goodwill	J	8,980,029	(8,980,029)	-
		37,806,225	331,535	38,137,760
Total assets		$ 70,811,022	$ (144,000)	$ 70,667,022
Liabilities and Equity				
Current liabilities:				
Bank indebtedness		$ 616,299	$ -	$ 616,299
Operating loan		6,720,000	-	6,720,000
Current portion of long-term debt		17,201,750	-	17,201,750
Trade and other payables	B	9,287,389	(1,262,979)	8,024,410
Current portion of provision	B	-	824,942	824,942
Current portion of customer deposits		2,497,360	-	2,497,360
Income taxes payable		1,870,353	-	1,870,353
Deferred tax liabilities	A	140,983	(140,983)	-
		38,334,134	(579,020)	37,755,114
Non-current liabilities:				
Provisions	B	-	1,140,408	1,140,408
Customer deposits		1,246,036	-	1,246,036
Environmental liability	B	1,237,964	(1,237,964)	-
Deferred tax liabilities	A	2,957,957	140,983	3,098,940
		5,441,957	43,427	5,485,384
Equity:				
Share capital		26,366,433	-	26,366,433
Contributed surplus	D	2,688,847	11,000	2,699,847
Accumulated other comprehensive income	C	(3,218,489)	3,218,489	-
Retained earnings	F	1,198,140	(2,837,896)	(1,639,756)
		27,034,931	391,593	27,426,524
Total liabilities and equity		$ 70,811,022	$ (144,000)	$ 70,667,022

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34. Explanation of transition to IFRS:

(a) Reconciliation of consolidated equity (continued):

The following is a reconciliation of the Company's consolidated equity as at December 31, 2010:

	Note	Canadian GAAP	December 31, 2010 Effect of transition to IFRS	IFRS
Assets				
Current assets:				
Cash and cash equivalents		$ 5,357,742	$ -	$ 5,357,742
Short-term investments		6,267,780	-	6,267,780
Trade and other receivables		4,436,807	-	4,436,807
Escrow receivables		7,821,000	-	7,821,000
Inventories		6,364,754	-	6,364,754
Costs and estimated earnings on uncompleted			-	
contracts in excess of billings		5,353,997	-	5,353,997
Prepaid expenses		450,539	-	450,539
Deferred tax assets	A	417,199	(417,199)	-
		36,469,818	(417,199)	36,052,619
Non-current assets:				
Property, plant and equipment	E	18,296,598	(9,377,508)	8,919,090
Intangible assets	E	322,492	(322,492)	-
Deferred tax assets	A	3,541,860	2,911,803	6,453,663
		22,160,950	(6,788,197)	15,372,753
Total assets		$ 58,630,768	$ (7,205,396)	$ 51,425,372
Liabilities and Equity				
Current liabilities:				
Trade and other payables	B	$ 7,142,429	$ (882,596)	$ 6,259,833
Current portion of provision	B	-	803,722	803,722
Current portion of customer deposits		1,217,475	-	1,217,475
Income taxes payable		156,312	-	156,312
Deferred tax liabilities	A	41,914	(41,914)	-
		8,558,130	(120,788)	8,437,342
Non-current liabilities:				
Provisions	B	-	889,376	889,376
Customer deposits		283,016	-	283,016
Environmental liability	B	1,237,964	(1,237,964)	-
Deferred tax liabilities	A	1,497,839	41,914	1,539,753
		3,018,819	(306,674)	2,712,145
Equity:				
Share capital		26,374,781	-	26,374,781
Contributed surplus	D	2,825,322	(78,580)	2,746,742
Retained earnings	F	17,853,716	(6,699,354)	11,154,362
		47,053,819	(6,777,934)	40,275,885
Total liabilities and equity		$ 58,630,768	$ (7,205,396)	$ 51,425,372

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34. Explanation of transition to IFRS (continued):

(b) Reconciliation of consolidated comprehensive income (loss):

The following is a reconciliation of the Company's comprehensive income (loss) for the year ended December 31, 2010:

	Note	Canadian GAAP (1)	December 31, 2010 Effect of transition to IFRS	IFRS
Sales		$ 45,264,248	$ -	$ 45,264,248
Cost of goods sold	H	42,958,134	791,248	43,749,382
Depreciation of production property, plant and equipment	H	951,148	(951,148)	-
Gross profit		1,354,966	159,900	1,514,866
Other operating expenses:				
Salaries	G	2,200,652	(2,200,652)	-
Administration expenses	G, H	4,370,137	1,388,656	5,758,793
Selling expenses	K	-	833,310	833,310
Impairment of property, plant and equipment and intangible assets		-	9,700,000	- 9,700,000
		6,570,789	9,721,314	16,292,103
Loss from operating activities		(5,215,823)	(9,561,414)	(14,777,237)
Other income (expense):				
Depreciation of non-production property, plant and equipment and intangible assets	H	(280,966)	280,966	-
Interest, net	I	34,689	(34,689)	-
Change in fair value of derivative instruments	I	12,636	(12,636)	-
Foreign exchange gain	I	(34,113)	34,113	-
Finance income	I	-	70,257	70,257
Finance costs	I	-	(495,149)	(495,149)
		(267,754)	(157,138)	(424,892)
Loss from operations before income taxes		(5,483,577)	(9,718,552)	(15,202,129)
Income tax expense (recovery):				
Current		347,771	-	347,771
Deferred		(1,566,244)	(2,638,604)	(4,204,848)
		(1,218,473)	(2,638,604)	(3,857,077)
Loss from operations		(4,265,104)	(7,079,948)	(11,345,052)
Earnings from discontinued operations, net of income taxes		20,920,680	3,218,489	24,139,169
Net earnings		16,655,576	(3,861,459)	12,794,117
Other comprehensive loss, net of income taxes:				
Unrealized loss on translating financial statements of a self-sustaining foreign operation		(177,032)	-	(177,032)
Comprehensive income		$ 16,478,544	$ (3,861,459)	$ 12,617,085

(1) Certain of the Canadian GAAP figures have been reclassified to conform to IFRS presentation.

34. Explanation of transition to IFRSs (continued):

(c) Principal exemptions elected on transition to IFRS:

IFRS sets out the requirements that the Company must follow when it adopts IFRS for the first time as the basis for preparing its Consolidated Financial Statements. The Company is required to establish its IFRS accounting policies for the year ended December 31, 2011, and apply these retrospectively to determine the IFRS opening consolidated statement of financial position at the date of transition of January 1, 2010. To assist companies in the transition process, the standard permits a number of specified exemptions from the general principal of retrospective application as follows:

(i) Business combinations:

The Company has applied the business combinations exemption in IFRS 1 to not apply IFRS 3, Business Combinations, retrospectively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to the transition date. As a condition under IFRS 1 of applying this exemption, goodwill related to business combinations that occurred prior to January 1, 2010 was tested for impairment. No impairment existed at the date of transition.

(ii) Cumulative translation differences:

The Company has elected to set the previously accumulated cumulative translation account, which was included in accumulated other comprehensive income, to zero at January 1, 2010 and have it absorbed into retained deficit.

(iii) Share-based payments:

The Company has elected not to apply IFRS 2 to equity instruments granted on or before November 7, 2002, or which vested before the Company's date of transition on January 1, 2010.

(iv) Leases:

The Company has elected to apply the transitional provisions in International Financial Reporting Interpretations Committee ("IFRIC") 4, Determining Whether an Arrangement Contains a Lease ("IFRIC 4"), thereby determining whether the Company has any arrangements that exist at the date of transition to IFRS that contain a lease on the basis of facts and circumstances existing at January 1, 2010. No such arrangements were identified.

(v) Borrowing costs:

The Company has elected to apply the transitional provisions of IAS 23, Borrowing Costs ("IAS 23"), prospectively from the date of transition.

(d) Mandatory exceptions:

IFRS 1 prescribes mandatory exceptions to the restrospective application requirements of IFRS. The following exceptions apply to the Company:

Estimates made in accordance with IFRS at transition date, and in the comparative period of the first IFRS financial statements, were consistent with those determined under CGAAP with adjustments made only to reflect any differences in accounting policies. Under IFRS 1, the use of hindsight is not permitted to adjust estimates made in the past under CGAAP that were based on the information that was available at the time the estimate was determined. Any additional estimates that are required under IFRS, that were not required under CGAAP, are based on the information and conditions that exist at the transition date and in the comparative period of the first IFRS financial statements.

34. Explanation of transition to IFRSs (continued):

(e) Notes to the reconciliations:

A Under IFRS, all deferred tax assets and deferred tax liabilities are presented as non-current assets and liabilities.

As of December 31, 2010, the impairment charge of $9.7M that was allocated to the property, plant and equipment and intangibles assets contributed to an increase of $2,609,604 in deferred tax assets and the deferred income tax recovery.

B The Company had previously recorded an environmental remediation provision and warranty provision under Canadian GAAP as discounted using a risk free rate. Under IFRS, the Company restated the provision using a discount rate specific to the risk of the provision of 15.5% and reclassified the balance as part of Provisions on the Consolidated Statement of Financial Position. This resulted in a reduction of the provisions and an increase of $535,593 in the retained earnings at the transition date of January 1, 2010. This also resulted in a decrease of deferred tax assets of $144,000 and a corresponding decrease in retained earnings. As a result of the change in discount rates used in measuring the provisions at the date of transition, there is an increase in accretion expense, which is included in finance costs in the Consolidated Statement of Comprehensive Income (Loss), of $176,770 respectively for the year ended December 31, 2010.

Prior to transition to IFRS, management restructuring and warranties provisions were included as part of Trade and other payables. IFRS requires separate disclosure of these provisions. Moreover, the environmental remediation provision is no longer presented separately but is also presented as part of Provisions. Trade and other payables were consequently reduced to reflect the separate disclosure of the provisions.

C Upon the transition to IFRS, the Company has elected under IFRS 1 to reclassify the cumulative translation losses in accumulated other comprehensive income ("OCI") of $3,218,489 as an increase in retained deficit. This resulted in a corresponding increase in the net gain on sale of GBIH in the third quarter of 2010. Any subsequent translation gains or losses recognized in OCI were eliminated during the third quarter of 2010 when the Company sold GBIH.

D Under IFRS 1, the Company had to recalculate the share-based payment using graded vesting for all unvested options that existed at the transition date to IFRS on January 1, 2010. This resulted in a transition adjustment of $11,000 under IFRS, which contributed to an increase of contributed surplus and an increase in retained deficit. This change from the straight-line method under Canadian GAAP resulted in a decrease of share-based payment in the amount of $89,580 for the year ended December 31, 2010.

E Management determined that at December 31, 2010, as a result of the Company's continued low market capitalization, that there existed indicators of impairment in relation to CADRI, the Company's only remaining CGU. The recoverable amount for CADRI was determined using its Value In Use (which was greater than Fair Value Less Costs to Sell) using a pre-tax discount rate of 15.5%. As a result, it was determined that a write-down of $9.7 million was required, which was allocated to the following class of assets:

Intangible assets	$	322,493
Land and building		3,893,254
Machinery and equipment		5,484,253
	$	9,700,000

GLOBAL RAILWAY INDUSTRIES LTD.
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34. Explanation of transition to IFRSs (continued):

(e) Notes to the reconciliations (continued):

F Adjustments made to retained earnings (deficit) under IFRS can be summarized as follows:

	January 1, 2010	December 31, 2010
Reduction of environmental remediation provision (note B)	$ 472,450	$ 472,450
Tax impact of reduction of environmental remediation provision (note B)	(127,000)	(95,000)
Reduction of warranty expense due to discounting (note B)	63,143	73,667
Tax impact of reduction of warranty expense due to discounting (note B)	(17,000)	(20,000)
Elimination of OCI balance as of January 1, 2010 (note C)	(3,218,489)	(3,218,489)
Increase in the net gain on sale of GBIH (note C)	-	3,218,489
Accretion expense (note B)	-	(118,655)
Adjustment for unvested options as of January 1, 2010 (note D)	(11,000)	(11,000)
Decrease of share-based payment (note D)	-	89,580
Impairment of property, plant and equipment and intangibles (note E)	-	(9,700,000)
Income tax recovery increase due to impairment (note A)	-	2,609,604
Total adjustments	$ (2,837,896)	$ (6,699,354)

G Upon transition to IFRS, the adjustments related to the administration expense include:

	2010
Salaries are now part of administration and selling expenses	$ 2,200,652
Decrease of share-based payment (note D)	(89,580)
Depreciation of non-production property, plant and equipment (note H)	280,966
Bank fees are now part of finance costs (note I)	(261,334)
Selling expenses (note K)	(742,048)
Total adjustments	$ 1,388,656

H Depreciation expense of non-production property plant and equipment and intangible assets is now classified as administrative expenses and depreciation on production property, plant and equipment is classified as cost of goods sold.

I IFRS presentation requires the separate disclosure of finance income and finance costs. Therefore, interest income, change in fair value of derivative instruments, and foreign exchange gains, which were disclosed separately under Canadian GAAP are reclassified under finance income for IFRS presentation.

Interest expense, bank fees, and foreign exchange losses are classified as finance costs under IFRS. Details related to the finance income and finance costs for the year ending December 31, 2010 and December 31, 2011, respectively are disclosed in note 7.

J Under IFRS, goodwill is presented as part of the intangible assets. The goodwill related to GBIH and Bach-Simpson was subject to an impairment test at January 1, 2010 and it was concluded that no impairment existed at that time. Subsequently, the goodwill was written off as a result of the sale of GBIH and Bach-Simpson which occurred in the third quarter of 2010.

K Under IFRS, selling expenses are presented separately from the administration expenses as part of the Company's decision to present the Consolidated Statement of Comprehensive Income (Loss) on a functional basis.

(f) Reconciliation of consolidated cash flows:

Interest paid and income taxes paid have been moved into the body of the Consolidated Statements of Cash Flows as part of operating activities, whereas they were previously disclosed as supplementary information. There are no other material differences between the Consolidated Statements of Cash Flows presented under previous Canadian GAAP.