

Condensed Consolidated Interim Financial Statements of

GLOBAL RAILWAY INDUSTRIES LTD.

(In Canadian dollars)

Six months ended June 30, 2012 and 2011

(Unaudited)

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Interim Statements of Financial Position

(In Canadian dollars)

June 30, 2012, with comparative figures as at December 31, 2011

(Unaudited)

	June 30, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 283,623	\$ 4,285,302
Short-term investments	3,508,867	2,782,201
Trade and other receivables	183,866	208,442
Escrow receivables	1,006,831	4,167,084
Prepaid expenses	49,175	13,500
	<u>5,032,362</u>	<u>11,456,529</u>
Total assets	\$ 5,032,362	\$ 11,456,529

Liabilities and Equity

Current liabilities:		
Trade and other payables	\$ 170,659	\$ 223,569
Income taxes payable	278,313	278,313
Provisions	250,000	250,000
	<u>698,972</u>	<u>751,882</u>
Equity:		
Share capital	26,387,766	26,387,766
Contributed surplus	2,744,438	2,744,438
Deficit	(24,798,814)	(18,427,557)
	<u>4,333,390</u>	<u>10,704,647</u>
Total liabilities and equity	\$ 5,032,362	\$ 11,456,529

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

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 Interim Statements of Comprehensive Loss

(In Canadian dollars)

Three months and six months ended June 30, 2012, with comparative figures for 2011

(Unaudited)

	Three months		Six months	
	2012	2011	2012	2011
Sales	\$ -	\$ 10,093,785	\$ -	\$ 22,273,360
Cost of goods sold	-	9,090,069	-	19,710,897
Gross profit	-	1,003,716	-	2,562,463
Other operating expenses:				
Administration expenses	160,923	1,236,920	314,620	2,416,770
Selling expenses	-	152,498	-	308,197
	160,923	1,389,418	314,620	2,724,967
Loss from operating activities	(160,923)	(385,702)	(314,620)	(162,504)
Finance income	27,173	55,456	51,123	108,415
Finance costs	(938)	(90,367)	(2,134)	(179,015)
Net finance income (costs)	26,235	(34,911)	48,989	(70,600)
Loss before income taxes	(134,688)	(420,613)	(265,631)	(233,104)
Income tax expense (recovery):				
Current	-	(11,543)	-	14,963
Deferred	-	171,520	-	130,574
	-	159,977	-	145,537
Loss and comprehensive loss	\$ (134,688)	\$ (580,590)	\$ (265,631)	\$ (378,641)
Loss per share (note 4):				
Basic and diluted	\$ (0.01)	\$ (0.04)	\$ (0.02)	\$ (0.02)

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Interim Statements of Changes in Equity

(In Canadian dollars)

Six months ended June 30, 2012, with comparative figures for the six months ended June 30, 2011

(Unaudited)

	Number of common shares issued	Share capital	Contributed surplus	Retained earnings (deficit)	Total equity
Balance at January 1, 2011	15,252,399	\$ 26,374,781	\$ 2,746,742	\$ 11,154,362	\$ 40,275,885
Loss	-	-	-	(378,641)	(378,641)
Share-based payment	-	-	1,146	-	1,146
Balance at June 30, 2011	15,252,399	\$ 26,374,781	\$ 2,747,888	\$ 10,775,721	\$ 39,898,390
.					
Balance at January 1, 2012	15,264,065	\$ 26,387,766	\$ 2,744,438	\$ (18,427,557)	\$ 10,704,647
Loss	-	-	-	(265,631)	(265,631)
Dividend paid	-	-	-	(6,105,626)	(6,105,626)
Balance at June 30, 2012	15,264,065	\$ 26,387,766	\$ 2,744,438	\$ (24,798,814)	\$ 4,333,390

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Interim Statements of Cash Flows

(In Canadian dollars)

Six months ended June 30, 2012, with comparative figures for 2011

(Unaudited)

	2012	2011
Cash provided by (used in):		
Cash flows from operating activities:		
Loss	\$ (265,631)	\$ (378,641)
Adjustments for:		
Income tax recovery	-	145,537
Share-based payment	-	1,146
Depreciation of plant and equipment	-	196,403
Variation of depreciation included in inventories	-	26,363
Net finance (income) costs	(48,989)	70,600
	(314,620)	61,408
Change in:		
Trade and other receivables	24,576	(613,766)
Escrow receivables	3,165,275	2,430,229
Inventories	-	366,155
Costs and estimated earnings on uncompleted contracts in excess of billings	-	(533,660)
Billings on uncompleted contracts in excess of costs and estimated earnings	-	144,374
Prepaid expenses	(35,675)	(269,259)
Trade and other payables	(59,038)	(1,300,898)
Provisions	-	(288,781)
Customer deposits	-	(726,907)
	3,095,138	(792,513)
Interest paid	-	(31,439)
Income taxes paid	-	(1,628)
Net cash from (used in) operating activities	2,780,518	(764,172)
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	-	(174,299)
Proceeds from sale of short-term investments	1,782,906	-
Purchase of short-term investments	(2,500,000)	-
Interest received	42,579	25,542
Net cash used in investing activities	(674,515)	(148,757)
Cash flows from financing activities:		
Repayment of customer deposits	-	(226,415)
Payment of bank fees	(2,056)	(12,115)
Dividends paid (note 5)	(6,105,626)	-
Net cash used in financing activities	(6,107,682)	(238,530)
Decrease in cash and cash equivalents	(4,001,679)	(1,151,459)
Cash and cash equivalents, beginning of period	4,285,302	5,357,742
Cash and cash equivalents, end of period	\$ 283,623	\$ 4,206,283

See accompanying notes to the Condensed Consolidated Interim Financial Statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to the Condensed Consolidated Interim Financial Statements
(In Canadian dollars)
Six months ended June 30, 2012 and 2011
(Unaudited)

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. 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. 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, 2011, which were prepared under International Financial Reporting Standards ("IFRS"), are available on SEDAR, or at www.globalrailway.com.

2. Basis of preparation:

(a) Statement of compliance:

These Condensed Consolidated Interim Financial Statements, including comparatives, have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB") and using the accounting policies disclosed in the Company's December 31, 2011 annual Consolidated Financial Statements. The Condensed Consolidated Interim Financial Statements do not include all of the information required for full annual Consolidated Financial Statements.

These Condensed Consolidated Interim Financial Statements should be read in conjunction with the Company's 2011 annual Consolidated Financial Statements prepared in accordance with IFRS and with the accounting policies and selected annual disclosures disclosed in notes 2 and 3.

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

These Condensed Consolidated Interim Financial Statements were approved by the Company's Board of Directors on July 19, 2012.

(b) Basis of consolidation:

The Condensed Consolidated Interim 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 Condensed Consolidated Interim 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 to 2290693 Ontario inc., GBI Industries, Inc. and 1703558 Ontario Inc. ("1703558", formerly 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 Condensed Consolidated Interim Financial Statements.

(c) Basis of measurement:

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

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)

(In Canadian dollars)

Six months ended June 30, 2012 and 2011

(Unaudited)

2. Basis of preparation (continued):

- (d) Functional and presentation currency:

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

- (e) Use of estimates and judgements:

The preparation of the Condensed Consolidated Interim Financial Statements 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.

Judgement is used mainly in determining whether a balance or transaction should be recognized in the Condensed Consolidated Financial Statements. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. However, judgement and estimates are often interrelated.

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

- (i) Provision for claims:

Provisions are made for warranty and environmental expenses based on past experience and Management's estimate of the timing of future payments and an appropriate discount rate. Subsequent to the sale of CADRI, the Company's provisions represent 50% of Management's best estimate of certain warranty expenses to be incurred by CADRI for a period of one year, to a maximum of \$1,000,000 in combination with other indemnities as agreed to in the Share Purchase Agreement.

- (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) 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.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to the Condensed Consolidated Interim Financial Statements (Continued)
(In Canadian dollars)
Six months ended June 30, 2012 and 2011
(Unaudited)

3. Significant accounting policies:

The accounting policies set out in note 3 of the Consolidated Financial Statements for the year ended December 31, 2011, have been applied consistently to all periods presented in these Condensed Consolidated Interim Financial Statements. In addition, the Company adopted the following accounting pronouncement, IFRS 7, Financial Instruments: Disclosures.

In October 2010, the IASB amended IFRS 7, Financial Instruments: Disclosures ("IFRS 7"). This amendment enhances disclosure requirements to aid financial statement users in evaluating the nature of, and risks associated with an entity's continuing involvement in derecognized financial assets. This amendment is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2012. The Company has completed its assessment of this amendment and there is no impact on its unaudited Condensed Consolidated Interim Financial Statements.

4. Loss per share:

The computation for basic and diluted common shares outstanding for the three and six month periods ended June 30 are as follows:

	Three months		Six months	
	2012	2011	2012	2011
Weighted average number of common shares outstanding:				
Basic	15,264,065	15,252,399	15,264,065	15,252,399
Effect of stock options	-	-	-	-
Diluted	15,264,065	15,252,399	15,264,065	15,252,399

Stock options to purchase nil (June 30, 2011 - 260,000) common shares 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 June 30, 2012 (June 30, 2011 - 277,500).

5. Dividends paid:

On April 25, 2012, the Board of Directors authorized a second dividend to shareholders since the voluntary wind-up of the Company commenced on October 13, 2011 of \$0.40 per common share for a total of \$6,105,626. The payment was made on May 14, 2012.

6. Related party transactions:

During the six months ended June 30, 2012, \$90,000 was paid for management services provided by a company owned by the Company's President and Chief Executive Officer (June 30, 2011 - \$244,000).