GLOBAL RAILWAY INDUSTRIES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 and 2011

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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, 2012, and December 31, 2011, the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, 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, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 11, 2013
London, Canada

GLOBAL RAILWAY INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND DECEMBER 31, 2011
(Expressed in Canadian Dollars)

	Notes	2012	2011
ASSETS			
Current assets			
Cash		$ 650,969	$ 4,285,302
Short-term investments		3,527,048	2,782,201
Receivables	4	28,059	208,442
Escrow receivables	5	-	4,167,084
Prepaid expenses		13,500	13,500
		$ 4,219,576	$ 11,456,529
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	6	$ 72,026	$ 223,569
Income taxes payable		254,985	278,313
Provisions	7	-	250,000
		327,011	751,882
Equity			
Share capital	8	26,387,766	26,387,766
Contributed surplus		2,744,438	2,744,438
Deficit		(25,239,639)	(18,427,557)
		3,892,565	10,704,647
		$ 4,219,576	$ 11,456,529

Subsequent events (Note 18)

On behalf of the Board:

"Tom Kusumoto" Director *"Ken MacLeod"* Director

The accompanying notes are an integral part of these consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
YEARS ENDED DECEMBER 31, 2012 AND DECEMBER 31, 2011
(Expressed in Canadian Dollars)

	Notes	2012	2011
Sales	9	$ -	$ 30,907,423
Cost of goods sold	7	200,000	28,469,236
Gross profit (loss)		(200,000)	2,438,187
Operating Expenses			
General and administrative expenses	10	598,795	4,072,893
Selling expenses	10	-	462,412
		598,795	4,535,305
Loss before sale of subsidiary		(798,795)	(2,097,118)
Loss on sale of subsidiary	5	-	(12,141,113)
Loss from operating activities		(798,795)	(14,238,231)
Finance income	11	74,458	287,329
Finance costs	11	(3,058)	(237,556)
		71,400	49,773
Loss before income taxes		(727,395)	(14,188,458)
Income tax expense (recovery)	15		
Current		(20,939)	4,328
Deferred		-	125,068
		(20,939)	129,396
Loss and comprehensive loss for the year		$ (706,456)	$ (14,317,854)
Loss per common share, basic and diluted		$ (0.05)	$ (0.94)
Weighted average number of common shares outstanding		15,264,065	15,253,371

The accompanying notes are an integral part of these consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2012 AND DECEMBER 31, 2011
(Expressed in Canadian Dollars)

	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 for the year	-		-		-		(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 (Note 8)	-		-		-		(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
Balance at January 1, 2012	15,264,065	$	26,387,766	$	2,744,438	$	(18,427,557)	$	10,704,647
Loss for the year	-		-		-		(706,456)		(706,456)
Dividends paid (Note 8)	-		-		-		(6,105,626)		(6,105,626)
Balance at December 31, 2012	15,264,065	$	26,387,766	$	2,744,438	$	(25,239,639)	$	3,892,565

The accompanying notes are an integral part of these consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND DECEMBER 31, 2011
(Expressed in Canadian Dollars)

	Notes	2012	2011
CASH PROVIDED BY (USED IN):			
OPERATING ACTIVITIES			
Loss for the year		$ (706,456)	$ (14,317,854)
Items not affecting cash:			
Loss on sale of subsidiary	5	-	12,141,113
Income tax expense (recovery)		(20,939)	129,396
Share-based payment		-	2,281
Depreciation of plant and equipment		-	288,273
Variation of depreciation included in inventories		-	26,363
Net finance income	11	(71,400)	(49,773)
		(798,795)	(1,780,201)
Changes in non-cash working capital items			
Trade and other receivables		180,383	500,715
Escrow receivables		4,167,084	3,653,916
Inventories		-	362,031
Costs and estimated earnings on uncompleted contracts in excess of billing		-	(719,238)
Billings on uncompleted contracts in excess of costs and estimated earnings		-	336,665
Prepaid expenses		-	(155,732)
Trade and other payables		(151,543)	(1,479,524)
Provisions		(250,000)	(428,337)
Customer deposits		-	(783,515)
Interest paid		-	(44,644)
Income taxes paid		(2,389)	-
Net finance income		(91)	(1,628)
		3,144,649	(539,492)
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		-	(218,513)
Net proceeds from sale of subsidiaires		-	11,509,376
Proceeds from sale of short-term investments		4,282,905	16,500,000
Purchase of short-term investments		(5,029,882)	(13,000,000)
Interest received	11	76,588	210,571
		(670,389)	15,001,434
FINANCING ACTIVITIES			
Repayment of customer deposits		-	(283,016)
Proceeds from exercise of share options		-	8,400
Payment of bank fees	11	(2,967)	(31,248)
Dividends paid	8	(6,105,626)	(15,264,065)
		(6,108,593)	(15,569,929)
Change in cash during the year		(3,634,333)	(1,107,987)
Disposition of bank indebtedeness from sale of subsidiaries		-	35,547
Cash, beginning of the year		4,285,302	5,357,742
Cash, end of the year		$ 650,969	$ 4,285,302

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS

Global Railway Industries Ltd. ("the Company") is a company domiciled in British Columbia, Canada, with its Registered Office located at 1000 - 925 West Georgia Street, Vancouver, BC V6C 3L2.

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, CAD Railway Industries Ltd. ("CADRI"), 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. The Company was no longer able to meet the TSX's listing requirements following the sale of CADRI.

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.

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").

On January 31, 2013, at a special meeting of the Company’s shareholders, the shareholders passed special resolutions to revoke the Certificate of Intent to Dissolve issued to the Company by the Registrar of Corporations of Alberta and to continue the Company from the jurisdiction of Alberta to the jurisdiction of British Columbia.

The Consolidated Financial Statements of the Company for the year ended December 31, 2012, which were prepared under International Financial Reporting Standards ("IFRS") are available on SEDAR.

2. BASIS OF PREPARATION

Statement of compliance

These Consolidated Financial Statements have been prepared in accordance with IFRS and with the accounting policies and selected annual disclosures disclosed in notes 2 and 3.

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

These Consolidated Financial Statements were approved by the Company's Board of Directors on March 11, 2013.

Basis of consolidation

The Consolidated Financial Statements include the accounts of Global Railway Industries Ltd. and its wholly-owned subsidiaries, CADRI and its wholly-owned subsidiary, CAD Railway Properties Inc. ("CRP"), which were sold on September 23, 2011 to 2290693 Ontario Inc. (“2290693”), GBI Industries, Inc., which was wound up on October 14, 2011 and 1703558 Ontario Inc. ("1703558"), which was wound up on September 21, 2011.

2. BASIS OF PREPARATION (cont'd…)

Basis of consolidation (cont'd…)

Control over a subsidiary exists when the Company 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.

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.

Basis of measurement

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

Functional and presentation currency

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

Use of estimates and judgments

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

Judgment is used mainly in determining whether a balance or transaction should be recognized in the Consolidated Financial Statements. Management makes judgments that affect the application of accounting policies and interpretations of accounting standards. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated.

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

Provision for claims

Judgment is exercised in deciding whether a claim meets the criteria for an obligation and in assessing the probability of the outflow of economic resources. Provisions are made for warranty expenses based on past experience and Management's estimate of the timing of future payments and an appropriate discount rate.

Provision against receivables for claims

Management exercises judgment to determine if there are factors indicating an asset impairment. The Company makes estimates on the recoverability of 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 receivable balances.

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 in Management's judgment it is no longer considered probable that the related tax benefit will be realized.

3. SIGNIFICANT ACCOUNTING POLICIES

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.

Employee benefits

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.

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.

Short-term employee benefits

Short-term employee benefits include wages, salaries, compensated absences and bonuses. Short-term employee benefit obligations are measured on an 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Revenues for engineering service contracts, production contracts and long-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 to Management.

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.

Income taxes

Income tax expense comprises current and deferred tax, which 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 purposes; 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.

Loss per common share

Basic loss per common share is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per common share is computed similar to basic loss per common share except that losses 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 (cont'd…)

Foreign currency

Transactions originating in foreign currencies are translated into 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.

Financial assets and financial liabilities

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 sheet 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.

Loans and receivables

Loans and receivables are defined as financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include cash, short-term investments and receivables, which are recognized on the date that the receivables originated.

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.

Other liabilities

Trade and other payables 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.

Financial assets and liabilities are offset and the net amount presented in the Consolidated Statements of Financial Position 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 (cont'd…)

Impairment of 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.

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.

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.

Accounting standards issued or amended, but not yet effective

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 annual consolidated financial statements commencing January 1, 2012. The Company has completed its assessment of this amendment and there was no impact on its Consolidated Financial Statements.

The International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") 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.

The Company has not assessed the impact that the new and amended standards will have on its Consolidated Financial Statements.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Accounting standards issued or amended, but not yet effective (cont'd…)

IFRS 9 - *Financial instruments: classification and measurement* – this is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value with changes in fair value through profit and loss. In addition, this new standard has been updated to include guidance on financial liabilities and de-recognition of financial instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IFRS 10 - ***Consolidation*** - requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements. This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 11 - ***Joint arrangements*** - requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities Non-monetary Contributions by Venturers. This Standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 - ***Disclosure of interests in other entities*** - establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 - ***Fair value measurement*** **-** is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRSs. The new standard clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.

4. RECEIVABLES

The Company had no trade receivables and other receivables due from related parties as at December 31, 2012 and December 31, 2011. All of the Company's receivables are for goods and services tax refunds.

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 13.

(Expressed in Canadian Dollars)

5. SALE OF SUBSIDIARY

On September 23, 2011, the Company sold the shares of its only remaining operating subsidiary, CADRI and its wholly-owned subsidiary, CRP, to 2290693 (the "Buyer"), a company controlled by the Company's former acting President and CEO, a financial partner and members of the CADRI management team. The purchase price of CADRI was $12,834,000 including the assumption of debt outstanding of $434,000 for a gross 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.

During the year ended December 31, 2012, escrow proceeds of $3,715,275, net of $13,221 interest, was received of which $3,165,275 was related to the 2010 sale of 1703558. The remaining $550,000, net of $10,656 interest, received was related to the sale of CADRI. On October 30, 2012, the Company signed a settlement and release agreement to release $450,000 held in escrow to the Buyer and the remaining escrow balance, including any earned interest, to the Company. The Buyer has released the Company from all claims and any further claims of any nature against the Company under the CADRI Share Purchase Agreement.

The book value of the net assets sold, as well as the accounting loss on the 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
		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
		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)

(Expressed in Canadian Dollars)

6. TRADE AND OTHER PAYABLES

	2012	2011
Trade and other payables due to related parties (Note 12 (c))	$ 6,869	$ 3,869
Non-trade payables and accrued expenses	65,157	219,700
	$ 72,026	$ 223,569

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 13.

7. PROVISIONS

	Management Restructuring (1)	Environmental Remediation (2)	Warranties (3)	Total
Balance at January 1, 2011	$ 285,000	$ 884,169	$ 523,929	$ 1,693,098
Charges	-	-	372,637	372,637
Utilization	(280,500)	-	(515,975)	(796,475)
Accretion	-	102,787	58,878	161,665
Translation and other	(4,500)	-	-	(4,500)
Sale of CADRI subsidiary (Note 5)	-	(986,956)	(189,469)	(1,176,425)
Balance at December 31, 2011	-	-	250,000	250,000
Less: short-term provisions	-	-	(250,000)	(250,000)
Long-term provisions	$ -	$ -	$ -	$ -
Balance at January 1, 2012	$ -	$ -	$ 250,000	$ 250,000
Charges	-	-	200,000	200,000
Utilization	-	-	(450,000)	(450,000)
Balance at December 31, 2012	$ -	$ -	$ -	$ -

(1) During the year ended December 31, 2011, severance payments totaling US $285,000 were paid to the President of CADRI, the Company's former Acting President and former Chief Executive Officer for the sale in 2010 of two subsidiaries, GBI USA Holdings, Inc. and 1703558.

(2) In connection with the acquisition of land and building in prior years, the Company identified an environmental contamination related to CADRI. The provision to sustain costs related to environmental assessment and remediation was calculated using a discount rate of 15.5%.

(Expressed in Canadian Dollars)

7. PROVISIONS (cont'd…)

(3) Under the CADRI Share Purchase Agreement (Note 5), the Company was responsible for 50%, to a maximum of $1,000,000, of any warranty liability, late fees or penalties paid or accrued by CADRI, for one year from the closing date, relating to items sold or services rendered prior to the closing of the CADRI sale transaction. The Company had recorded a provision of $250,000 as at December 31, 2011. On September 20, 2012, the Company received notice from the Buyer of claims for indemnification in respect of warranties or guaranties given by CADRI. On October 30, 2012 the Company signed an Agreement with the Buyer for $450,000 which was settled by the release of escrow funds to the Buyer.

Charges to the provision of $200,000 (December 31, 2011 - $372,637) were recorded to cost of goods sold in the Consolidated Statements of Comprehensive Loss.

8. CAPITAL AND OTHER COMPONENTS OF EQUITY

Share Capital

	Number of Shares	Amount
Authorized		
Unlimited number of voting common shares, no par value		
Unlimited number of preferred shares, issuable in one or more series, designations, rights, privileges, restrictions and conditions determined by Board of Directors		
Issued		
Preferred shares, balance December 31, 2012 and December 31 2011	-	$ -
Issued		
Common shares		
Balance, January 1, 2011	15,252,399	$ 26,374,781
Exercise of share options during the year ended December 31, 2011	11,666	12,985
Balance, December 31, 2012 and December 31, 2011	15,264,065	$ 26,387,766

During the year ended December 31, 2011, 11,666 common shares were issued to a former executive officer on the exercise of share options at an average price of $0.72 per option. All issued shares were fully paid.

Share Options

There were no share options outstanding as at December 31, 2012 (December 31, 2011 - $Nil).

Contributed surplus

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

(Expressed in Canadian Dollars)

8. CAPITAL AND OTHER COMPONENTS OF EQUITY (cont'd…)

Dividends

On May 14, 2012, the Company paid a dividend of $0.40 per qualifying common share for a total of $6,105,626.

On November 2, 2011, the Company paid a dividend of $1.00 per qualifying common share for a total of $15,264,065.

9. REVENUE

	December 31, 2012	December 31, 2011
Contract Revenue	$ -	$ 26,245,846
Sale of goods	-	3,179,703
Rendering of services	-	1,443,941
Rental revenue	-	37,933
	$ -	$ 30,907,423

The Company had no revenue subsequent to the sale of CADRI on September 23, 2011 (Note 5).

10. SUPPLEMENTAL EXPENSE INFORMATION

Wages and salaries expense is classified on the Consolidated Statements of Comprehensive Loss based on the related service performed. The following table details wages and salaries and where they have been classified on the Consolidated Statements of Comprehensive Loss.

	December 31, 2012	December 31, 2011
Wages and salaries	$ -	$ 9,099,642
Employee benefit expenses	-	2,150,495
Share-based payment	-	2,281
	$ -	$ 11,252,418
Presented on the Consolidated Statements of Comprehensive Loss		
Cost of goods sold	$ -	$ 9,987,806
Administrative expenses	-	993,160
Selling expenses	-	271,452
	$ -	$ 11,252,418

The Company's key management personnel compensation has been disclosed in Note 12.

(Expressed in Canadian Dollars)

10. SUPPLEMENTAL EXPENSE INFORMATION (cont'd…)

For the year ended December 31, 2012, the Company presented the depreciation from property, plant and equipment of $Nil (December 31, 2011 - $288,273) as cost of goods sold.

11. FINANCE INCOME AND FINANCE COSTS

		December 31, 2012		December 31, 2011
Finance Income				
Interest income on short-term deposits	$	74,458	$	205,248
Interest income, other		-		5,323
Net foreign exchange gains		-		76,758
		74,458		287,329
Finance Costs				
Interest expense, other		-		44,644
Net foreign exchange loss		91		-
Accretion expenses		-		161,664
Bank fees		2,967		31,248
		3,058		237,556
Net finance income recognized in loss for the year	$	71,400	$	49,773

12. RELATED PARTY TRANSACTIONS

During the years ended December 31, 2012 and December 31, 2011, the Company entered into the following related party transactions:

(a) Paid or accrued fees of $73,894 (2011 - $100,000) to directors of the Company.

(b) Paid a bonus of $Nil (2011 - $25,000) to a director of the Company.

(c) Trade and other payables due to related parties total $6,869; $3,000 payable to a company that has significant influence over the Company and $3,869 payable to CADRI (2011 - $3,869; payable to CADRI).

(d) During the year ended December 31, 2012, the Company expensed $180,000 (December 31, 2011 - $742,919) of short-term benefits for key management personnel, of which $180,000 (December 31, 2011 - $280,000) was paid for management services provided by a company owned by the Company's former acting President and former Chief Executive Officer. As at December 31, 2012, there were no unpaid fees for management services.

12. RELATED PARTY TRANSACTIONS (cont'd…)

(e) During the year ended December 31, 2012, a bonus of $Nil (2011 - $100,000) was paid for the successful sale of CADRI to a company owned by the Company's former acting President and former Chief Executive Officer.

(f) During the year ended December 31, 2012, wages of $Nil were paid to the President and Chief Financial Officer. During the year ended December 31, 2011, wages of $362,500 were paid to the former Chief Financial Officer and former executive officers.

(g) During the year ended December 31, 2012, severance payments of $Nil (2011 - $165,798) were paid to a former executive officer and severance payments of $Nil (2011 - $280,500) were paid to the former President and former CEO of the Company.

(h) As of December 31, 2012 and December 31, 2011 there were no loans made to executive officers or directors and there were no non-cash benefits paid to them. Prior to the sale of CADRI, executive officers participated in the Company's share option program.

(i) As of December 31, 2011, directors and executive officers of the Company controlled 26.2% of the voting shares of the Company, of which 3,929,399 (25.7%) was controlled by one director and his associates. On November 20, 2012, the director and his associates sold the 3,929,300 shares of the Company to a subsidiary of North Group Finance Ltd. ("North Group"). The President and Chief Executive Officer controls 25.06% of the voting shares of North Group.

(j) For the years ended December 31, 2012 and December 31, 2011, there were no transactions relating to key management personnel and entities over which they have control or significant influence.

(k) During the year ended December 31, 2011, in the normal course of business, CADRI purchased inventory from a company owned by the Company's former acting President and former Chief Executive Officer totaling approximately U.S. $2,303,000. These purchases were made under terms and conditions comparable to those of CADRI's other inventory purchases.

(l) During the year ended December 31, 2011, the Company signed a Share Purchase Agreement (Note 5) to sell the shares of CADRI and its wholly-owned subsidiary, CRP, to 2290693, a company controlled by the Company's former acting President and former CEO. On September 23, 2011, 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 transaction costs and purchase price adjustments.

During the year ended December 31, 2012, $450,000 was released from the Company's escrow receivable to 2290693 (Note 5).

Key management personnel of the Company includes the new and former President and Chief Executive Officer, the new and former Chief Financial Officer, Presidents and executive officers of subsidiaries and new and former members of the Board of Directors.

(Expressed in Canadian Dollars)

12. RELATED PARTY TRANSACTIONS (cont'd…)

Key management personnel and director compensation:

		2012		2011
Short-term employee benefits	$	180,000	$	742,919
Severance payments		-		446,298
Board of directors payments		73,894		125,000
Share-based payments		-		2,281
	$	253,894	$	1,316,498

13. FINANCIAL INSTRUMENTS

Credit risk

The carrying amount of financial assets represents maximum credit exposure.

Carrying amount		2012		2011
Cash	$	650,969	$	4,285,302
Short-term investments		3,527,048		2,782,201
Receivables		28,059		208,442
Escrow receivables		-		4,167,084
	$	4,206,076	$	11,443,029

The Company's credit risk associated with cash and short-term investments is minimized by ensuring these financial assets are invested with highly rated financial institutions.

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

All counterparties are governments located domestically for receivables as at December 31, 2012 and December 31, 2011.

There was no impairment of receivables as at December 31, 2012 or December 31, 2011.

Liquidity risk

As of December 31, 2012 and 2011, the Company did not have any derivative financial liabilities. The only non-derivative financial liabilities of the Company relate to the trade and other payables.

(Expressed in Canadian Dollars)

13. FINANCIAL INSTRUMENTS (cont'd…)

Liquidity risk (cont'd…)

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

		Carrying amount	Contractual cash flows	6 months or less	6-12 months
2012	Trade and other payables	$ 72,026	$ (72,026)	$ (72,026)	-
2011	Trade and other payables	$ 223,569	$ (223,569)	$ (223,569)	-

Currency risk

The Company is exposed to foreign exchange risks arising from fluctuation in exchange rates on its U.S. dollar denominated monetary assets, liabilities and expenses. As at December 31, 2012, the Company's exposure to foreign currency risk was cash of $25 (December 31, 2011 - $2,869).

Interest rate risk

The interest rate profile of the Company's interest-bearing financial instruments was:

	2012	2011
Fixed rate instruments	$ -	$ 1,631,888
Variable rate instruments	3,527,048	5,317,397
	$ 3,527,048	$ 6,949,285

The Company's variable rate financial assets are comprised of short-term investments for the year ended December 31, 2012.

For the year ended December 31, 2011, escrow receivables and certain short-term investments composed the Company's fixed rate financial assets while other short-term investments composed the Company's variable rate financial assets.

The Company had no interest bearing financial liabilities at December 31, 2012 or 2011.

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 the loss for the year with a corresponding change in equity by $52,330 for the year ended December 31, 2012 (December 31, 2011 - $51,843).

13. FINANCIAL INSTRUMENTS (cont'd…)

Fair Values

The Company's financial instruments consist of cash, short-term investments, receivables, escrow receivables and trade and other payables. As at December 31, 2012 and December 3, 2011, the fair value of these financial instruments approximates their carrying value due to the relatively short periods to maturity of the instruments.

14. 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.

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 is consistent with the business objectives and risk tolerance.

Credit risk

Credit risk is the risk of financial loss to 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.

For the year 2012, the Company's credit risk is related to the carrying value of its cash, short-term investments and receivables. The Company did not establish an allowance for impairment as at December 31, 2012, as all receivables relate to goods and services tax refunds from the Federal and Provincial governments. Refunds from governmental authorities have in the past been received as filed and there is no indication that this should change.

The Company's credit risk, before the sale of its last operating subsidiary in 2011 was also due to its trade receivables. Prior to the sale, the Company established an allowance for impairment that represented its estimate of losses to be incurred in respect of trade receivables.

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.

The Company does not have a line of credit or similar facility. The Company expects to have sufficient liquidity from its cash and short-term investments to settle future liabilities and obligations. The Company is considering strategic alternatives and value enhancing opportunities for the shareholders. This review may result in the Company undertaking an active plan to resume business activities with the objective of seeking to maximize shareholder value.

14. FINANCIAL RISK MANAGEMENT (cont'd…)

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.

The Company is exposed to financial risk that arises from interest rate fluctuations for certain cash and short-term investments.

Prior to the sale of CADRI, the Company was exposed to currency risks relating to sales and purchases that were denominated in U.S. dollars and was exposed to risk with respect to fluctuations in exchange rates between the Canadian and U.S. dollar. The Company did not use derivative instruments to reduce its exposure to foreign currency.

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 deficit.

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, may incur 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.

15. INCOME TAXES

		2012		2011
Current tax expense (recovery):				
Current period	$	(20,939)	$	19,328
Adjustment for prior periods		-		(15,000)
		(20,939)		4,328
Deferred tax expense (recovery):				
Origination and reversal of temporary differences		(192,744)		(1,688,864)
Change in tax rate		10,909		319,640
Current year losses for which no deferred tax asset was recognized		183,123		1,333,967
Change in unrecognized temporary differences		31,982		219,017
Other		(33,270)		(58,692)
		-		125,068
Total income tax expense (recovery)	$	(20,939)	$	129,396

(Expressed in Canadian Dollars)

15. INCOME TAXES (cont'd…)

Reconciliation of effective tax rate

The income tax expense (recovery) differs from the amount which would result from applying the expected income

			2012			2011
Loss for the year		$	(706,456)		$	(14,317,854)
Total income tax expense (recovery)			(20,939)			129,396
Loss before income taxes			(727,395)			(14,188,458)
Computed income tax recovery at exepcted rate	26.5%		(192,760)	28.4%		(4,029,522)
Difference resulting from:						
Non-deductible items			-			2,184,369
Change in tax rate			10,909			319,640
Current year losses for which no deferred tax asset was recognized			183,123			1,333,967
Change in unrecognized temporary differences			31,982			219,017
Other			(54,193)			101,925
			171,821			4,158,918
Total income tax expense (recovery)		$	(20,939)		$	129,396

The expected income tax rate reflects the combined Federal and Provincial income tax rates for a non-manufacturing company. The corporate tax rate has decreased largely as a result of a 1.5% Federal tax rate reduction.

16. DEFERRED TAX ASSETS AND LIABILITES

Unrecognized deferred tax assets

		2012		2011
Deductible temporary differences	$	3,829	$	3,867
Tax losses		1,757,574		1,542,018
	$	1,761,403	$	1,545,885

The unrecognized non-capital losses expire as follows:

		2012		2011
2026	$	98,407	$	98,407
2027		704,561		704,561
2031		849,875		861,630
2032		732,492		
	$	2,385,335	$	1,664,598

(Expressed in Canadian Dollars)

16. DEFERRED TAX ASSETS AND LIABILITES (cont'd…)

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.

17. SEGMENTED INFORMATION

Prior to the sale of CADRI in 2011, 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 by the geographic location of the customers:

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

18. SUBSEQUENT EVENTS

On January 31, 2013, at a special meeting of the Company's shareholders, the shareholders passed special resolutions to revoke the Certificate of Intent to Dissolve issued to the Company by the Registrar of Corporations of Alberta and to continue the Company from the jurisdiction of Alberta to the jurisdiction of British Columbia.

On February 19, 2013, the Company received confirmation from the Alberta Registrar of Corporations of receipt of its revocation of intent to dissolve.

On January 30, 2013, the Company received a valid notice of dissent to the continuation for 1,373,100 common shares of the Company. In order to proceed with the continuation, the Company purchased for cancellation the dissenting shareholders' shares for cash consideration of $315,813, based on the fair value per share of $0.23 as of the close of business on January 30, 2013. After cancellation the Company has 13,890,965 common shares issued and outstanding.