

Consolidated Financial Statements of

GLOBAL RAILWAY INDUSTRIES LTD.

Years ended December 31, 2010 and 2009



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Independent Auditors' Report

To the Shareholders

We have audited the accompanying consolidated financial statements of Global Railway Industries Ltd., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of earnings (loss) and comprehensive income (loss), shareholders' 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 Canadian generally accepted accounting principles, 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 audit. We conducted our audit 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 controls. 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 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 December 31, 2010 and 2009, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

March 30, 2011
London, Canada

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Balance Sheets

December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,625,522	\$ 2,005,824
Accounts receivable (note 12)	4,436,807	8,497,527
Escrow receivables (note 4)	7,821,000	-
Inventories (note 5)	6,364,754	14,477,398
Costs and estimated earnings on uncompleted contracts in excess of billings (note 6)	5,353,997	5,917,775
Prepaid expenses	450,539	1,014,439
Future income taxes (note 7)	417,199	475,535
	<u>36,469,818</u>	<u>32,388,498</u>
Property, plant and equipment (note 8)	18,296,598	22,776,870
Intangible assets (note 9)	322,492	552,250
Future income taxes (note 7)	3,541,860	5,497,076
Goodwill (note 10)	-	8,980,029
	<u>\$ 58,630,768</u>	<u>\$ 70,194,723</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Operating loan (note 11)	\$ -	\$ 6,720,000
Long-term debt (note 11)	-	17,201,750
Accounts payable and accrued liabilities	7,142,429	9,287,389
Customer deposits (note 16(b))	1,217,475	2,497,360
Income taxes payable	156,312	1,870,353
Future income taxes (note 7)	41,914	140,983
	<u>8,558,130</u>	<u>37,717,835</u>
Customer deposits (note 16(b))	283,016	1,246,036
Environmental liability (note 13)	1,237,964	1,237,964
Future income taxes (note 7)	1,497,839	2,957,957
Shareholders' equity:		
Share capital (note 14)	26,374,781	26,366,433
Contributed surplus	2,825,322	2,688,847
Accumulated other comprehensive loss	-	(3,218,489)
Retained earnings	17,853,716	1,198,140
	<u>47,053,819</u>	<u>27,034,931</u>
Commitments (note 15)		
Contingencies (note 16)		
Economic dependence (note 17)		
Subsequent events (note 25)		
	<u>\$ 58,630,768</u>	<u>\$ 70,194,723</u>

See accompanying notes to the consolidated 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 Statements of Earnings (Loss) and Comprehensive Income (Loss)

Years ended December 31, 2010 and 2009

	2010	2009
Sales	\$ 45,264,248	\$ 36,006,287
Cost of goods sold	42,856,663	38,008,042
Amortization of production property, plant and equipment (note 18)	951,148	1,057,294
	1,456,437	(3,059,049)
Operating expenses:		
Salaries	2,200,652	4,215,446
General and administration	4,471,608	4,263,325
	6,672,260	8,478,771
Loss before undernoted items	(5,215,823)	(11,537,820)
Other expenses (income):		
Amortization of non-production property, plant and equipment and intangible assets (note 18)	280,966	275,469
Interest, net	(34,689)	77,285
Change in fair value of derivative instruments	(12,636)	12,636
Foreign exchange loss (gain)	34,113	(120,988)
Goodwill impairment (note 10)	-	2,587,603
	267,754	2,832,005
Loss from continuing operations before income taxes	(5,483,577)	(14,369,825)
Income tax provision (recovery) (note 7):		
Current	347,771	-
Future	(1,566,244)	(3,506,801)
	(1,218,473)	(3,506,801)
Loss from continuing operations	(4,265,104)	(10,863,024)
Earnings from discontinued operations, net of income taxes (note 4)	20,920,680	4,027,731
Net earnings (loss)	16,655,576	(6,835,293)
Other comprehensive loss:		
Unrealized loss on translating financial statements of a self-sustaining foreign operation	(177,032)	(1,661,966)
Comprehensive income (loss)	\$ 16,478,544	\$ (8,497,259)
Loss per share from continuing operations (note 19):		
Basic	\$ (0.28)	\$ (0.71)
Diluted	\$ (0.28)	\$ (0.71)
Earnings per share from discontinued operations (notes 4 and 19):		
Basic	\$ 1.37	\$ 0.26
Diluted	\$ 1.37	\$ 0.26
Net earnings (loss) per share (note 19):		
Basic	\$ 1.09	\$ (0.45)
Diluted	\$ 1.09	\$ (0.45)

See accompanying notes to the consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Statements of Shareholders' Equity

Years ended December 31, 2010 and 2009

	Number of common shares issued	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
Balance at December 31, 2008	15,239,900	\$ 26,366,433	\$ 2,281,127	\$ (1,556,523)	\$ 8,033,433	\$ 35,124,470
Stock-based compensation	-	-	407,720	-	-	407,720
Change in accumulated foreign currency translation adjustment	-	-	-	(1,661,966)	-	(1,661,966)
Net loss	-	-	-	-	(6,835,293)	(6,835,293)
Balance at December 31, 2009	15,239,900	26,366,433	2,688,847	(3,218,489)	1,198,140	27,034,931
Stock-based compensation	-	-	139,423	-	-	139,423
Options exercised	7,500	8,348	(2,948)	-	-	5,400
Change in accumulated foreign currency translation adjustment	-	-	-	(177,032)	-	(177,032)
Realization of cumulative translation adjustment loss on sale of GBIH (note 4)	-	-	-	3,395,521	-	3,395,521
Net earnings	-	-	-	-	16,655,576	16,655,576
Balance at December 31, 2010	15,247,400	\$ 26,374,781	\$ 2,825,322	\$ -	\$ 17,853,716	\$ 47,053,819

See accompanying notes to the consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009

	2010	2009
Cash flows from (used in):		
Operating activities:		
Net loss from continuing operations	\$ (4,265,104)	\$(10,863,024)
Items not involving cash:		
Future income tax recovery	(1,566,244)	(3,506,801)
Goodwill impairment	-	2,587,603
Stock-based compensation expense	139,423	407,720
Amortization of plant and equipment (note 18)	1,039,395	1,016,204
Amortization of intangibles (note 18)	126,000	126,000
Variation of amortization included in inventories (note 18)	66,719	190,559
Changes in non-cash operating working capital:		
Accounts receivable	1,074,197	3,562,443
Inventories	625,753	704,955
Costs and estimated earnings on uncompleted contracts in excess of billings	433,133	(2,463,418)
Prepaid expenses	456,106	(381,847)
Accounts payable and accrued liabilities	1,392,976	(1,254,183)
Customer deposits	(1,279,885)	2,327,549
Income taxes payable	(442,017)	1,158,696
Unrealized foreign currency translation loss	-	(1,028,383)
	(2,199,548)	(7,415,927)
Investing activities:		
Purchase of property, plant, and equipment	(478,284)	(511,295)
Net proceeds from sale of subsidiaries (note 4)	36,266,809	-
Due from vendor (note 20)	-	1,536,000
	35,788,525	1,024,705
Financing activities:		
Operating loan	(6,720,000)	4,420,000
Long-term debt	(17,380,000)	(1,120,000)
Customer deposits	(963,020)	415,847
Issuance of share capital	5,400	-
	(25,057,620)	3,715,847
Increase (decrease) in cash and cash equivalents from continuing operations	8,531,357	(2,675,375)
Disposition of cash from sale of subsidiaries (note 4)	(967,929)	-
Cash provided by discontinued operations (note 4)	2,056,270	4,185,477
Increase in cash and cash equivalents	9,619,698	1,510,102
Cash and cash equivalents, beginning of year	2,005,824	495,722
Cash and cash equivalents, end of year	\$ 11,625,522	\$ 2,005,824
Cash and cash equivalents comprised of:		
Cash	\$ 1,297,805	\$ 2,005,824
Term deposits	\$ 10,327,717	\$ -
Supplementary information:		
Income taxes paid (refunded)	\$ 916,999	\$ (112,328)

See accompanying notes to the consolidated financial statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements

Years ended December 31, 2010 and 2009

Global Railway Industries Ltd. (the "Company") designs, manufactures, remanufactures, and markets railway products, equipment, locomotives, and services to the railway industry and remanufactures engines for the marine industry. The Company was incorporated in the Province of Alberta and is listed under the symbol "GBI" on the Toronto Stock Exchange.

1. Basis of presentation:

The Company's Consolidated Financial Statements have been prepared on a "going concern" basis in accordance with Canadian generally accepted accounting principles. The "going concern" basis of presentation assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

Basis of consolidation:

The Consolidated Financial Statements include the accounts of Global Railway Industries Ltd. and its wholly-owned subsidiaries, CAD Railway Industries Ltd. ("CADRI") and its wholly-owned subsidiary, CAD Railway Properties Inc., GBI Industries, Inc. and 1703558 Ontario Inc. (formerly Bach-Simpson Corporation). All significant intercompany transactions and balances have been eliminated upon consolidation.

2. Significant accounting policies:

(a) Inventories:

Inventories of components and purchased parts are valued at the lower of cost and net realizable value, on a first-in, first-out basis ("FIFO") at Bach-Simpson Corporation ("Bach-Simpson") and G&B Specialties, Inc ("G&B"). CADRI's inventories of components and purchased parts are valued at the lower of cost, on a weighted average cost 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.

(b) Property, plant and equipment:

Property, plant and equipment are recorded at cost and are amortized on a straight-line basis over the estimated useful lives of the assets as follows:

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

(c) Intangible assets:

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. 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 relative fair value. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives as follows:

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

Intangible assets with indefinite useful lives are not amortized and are tested for impairment annually or more frequently if events and changes in circumstances indicate that an asset might be impaired.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(d) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the net assets acquired, based on their fair values. Goodwill is allocated as of the date of the business combination.

Goodwill is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item on the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss).

(e) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Quoted market values are used whenever available to estimate fair value. When quoted market values are unavailable, the fair value of the long-lived asset is generally based on estimates of discounted expected net cash flows. Assets to be disposed of would be separately presented in the balance sheets and reported at the lower of the carrying amount or fair value, less costs to sell, and are no longer depreciated. The asset and liabilities of a disposed group of assets classified as held for sale would be presented separately in the appropriate asset and liability sections of the Consolidated Balance Sheets.

(f) Revenue recognition:

The Company ships 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. The Company recognizes revenue when products are shipped and the customer assumes risk of loss. The Company reviews all significant contracts at their inception and as each item in the arrangement is delivered to determine if the deliverable represents a separate unit of accounting. In the determination, the Company considers whether the delivered item has value to the customer on a stand-alone basis and that there is objective and reliable evidence of fair value of the undelivered items. Revenue is recognized at fair value on shipment or on the percentage of completion basis depending on the nature of the separate unit of accounting that is identified.

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 or labour hours incurred to date as a percentage of the total estimated costs or estimated labour hours 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 longer term remanufacturing contracts is carried as "billings on uncompleted contracts in excess of costs and estimated earnings" and "costs and estimated earnings in excess of billings" respectively in the Consolidated Balance Sheets.

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.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(g) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on the differences between the financial reporting and the tax basis of assets and liabilities. These differences are then measured using substantially enacted tax rates and laws that will be in effect when these differences are expected to reverse. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income for the period that the change occurs. The Company establishes a valuation allowance against future tax assets if, based on available information, it is more likely than not that some or all of the future tax assets will not be realized.

(h) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting periods. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, intangible assets, and goodwill; valuation allowances for accounts receivable, inventories, and future income taxes; reserves for warranty obligations; 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 financial statements in future periods.

(i) Earnings (loss) per share:

Basic earnings (loss) per common share are calculated using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share are calculated using the treasury stock method for determining the dilutive effect of outstanding options. Diluted earnings (loss) per common share are computed similar to basic earnings (loss) per common share except that the weighted average shares outstanding are increased to include additional common shares from the assumed exercise of stock options, if dilutive. The number of additional common shares is calculated by assuming the outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the period. When a loss is incurred, basic and diluted earnings per common share are the same because exercises of options are anti-dilutive.

(j) Stock-based compensation plan:

The Company uses the fair value method for calculating stock-based compensation expense. Under this method, compensation expense attributable to stock options granted to employees and directors is measured at fair value using the Black-Scholes method to estimate fair value at the grant date and expensed on a straight line basis over the vesting period; with a corresponding increase to contributed surplus. Upon the exercise of the option, consideration received, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

(k) Foreign currency translation:

Prior to July 28, 2010, the Company had one subsidiary in the United States, which was classified as a self-sustaining operation. Assets and liabilities of a self-sustaining foreign operation 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 exchange rates for the period. The cumulative unrealized translation gain or loss is included in accumulated other comprehensive income or loss in the Consolidated Statements of Shareholders' Equity. As at December 31, 2010, the Company has no subsidiaries in the United States classified as a self-sustaining operation.

Transactions of the Company and its subsidiaries originating in foreign currencies are translated at the rates in effect at the time of the transaction. Monetary items denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet dates and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Foreign exchange gains and losses are included in other expenses (income) on the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss).

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

2. Significant accounting policies (continued):

(l) Cash and cash equivalents:

The Company considers deposits in banks, certificates of deposit and short-term instruments with original maturities of three months or less as cash and cash equivalents.

(m) Financial Instruments:

All financial instruments and derivatives are measured at fair value on initial recognition except for certain related party transactions.

The Company's cash and cash equivalents are classified as held for trading and are measured at fair value subsequent to initial recognition. Accounts receivable and escrow receivables are classified as loans and receivables and are measured at amortized cost. Operating loans, accounts payable and accrued liabilities, environmental liability, customer deposits, and long-term debt are classified as other liabilities, all of 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.

(n) Derivative financial instruments:

Derivative instruments are recorded at fair value. The Company utilizes interest rate swaps in the normal course of its operations as a means to manage its interest rate risk. The Company's policy is not to utilize interest rate swaps for trading or speculative purposes.

The Company has chosen not to designate its interest rate swaps as hedges. As a result the interest rate swaps are currently on the Consolidated Balance Sheets at fair value, as part of accounts receivable, or accounts payable and accrued liabilities with changes in fair value being recognized in the Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss). Payments and receipts under the interest rate swaps are recognized as adjustments to interest expense on long-term debt.

The Company reviews all assets, including financial instruments, for impairment when events or changes in circumstances indicate the carrying amount of the assets may not be recoverable.

(o) 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 cost when there is reasonable assurance the tax credits will be received and if it is more likely than not that they will be utilized to reduce taxes payable.

(p) 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 Statements of Consolidated Earnings (Loss) and Comprehensive Income (Loss) is represented as if the operation had been discontinued from the start of the comparative period.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

3. Future accounting changes:

International Financial Reporting Standards ("IFRS"):

In February 2008, the CICA announced that Canadian public companies will be required to prepare their financial statements in accordance with IFRS for fiscal years beginning on or after January 1, 2011. The Company will issue its financial statements in the first quarter of 2011 in accordance with IFRS including restatement of comparative data for 2010 and presentation of the opening balance sheet as at January 1, 2010.

4. Discontinued operations:

In June 2009, the Company's Board of Directors established a Special Committee to assess all strategic alternatives available to the Company. The Special Committee engaged an independent financial advisor and retained independent legal counsel to assist with the process. In the third quarter of 2009, the Special Committee's mandate was expanded to include debt restructuring in order to manage the Company's liquidity situation. The Special Committee, with the advice of its financial advisor, considered all alternatives to maximize shareholder value. As part of this process, the financial advisor conducted a very broad auction to identify potential purchasers of all or part of the Company. This process resulted in the July 14, 2010 signing of an agreement to sell all of the outstanding shares of GBI USA Holdings, Inc. ("GBIH"), the parent company of G&B, and all of the business and substantially all of the assets and liabilities of Bach-Simpson-Simpson ("Bach-Simpson") to Wabtec Corporation ("Wabtec") for approximately \$48,000,000, subject to working capital adjustments. The Special Committee and the Board of Directors unanimously determined these sale transactions to be in the best interest of the Company and its shareholders.

The GBIH sale was concluded on July 28, 2010 and the Bach-Simpson sale was concluded on August 20, 2010. The agreement for the sale of GBIH shares and Bach-Simpson assets included indemnities to Wabtec in the event of inaccuracies in representations and warranties, or if the Company fails to perform agreements and covenants provided for in the agreement of purchase and sale. The terms of the indemnities vary in duration and may extend up to three years, depending upon circumstances. The indemnification provisions could result in future statement of earnings charges and reduced receipts of escrowed monies.

The Company continues to negotiate the final working capital adjustments related to the sale of GBIH (see note 25). As at December 31, 2010, cash proceeds for GBIH have been reduced by working capital adjustments totaling approximately \$1,056,000. The working capital adjustments related to the Bach-Simpson asset sale have been settled with Wabtec, resulting in the final cash proceeds being reduced by approximately \$402,000.

Approximately \$7,821,000 of the combined sale price for GBIH and Bach-Simpson is being held in escrow for potential indemnification claims. The escrow period extends for periods between six months and three years from the transaction closing dates, depending upon the nature of the indemnity, and circumstances. As of December 31, 2010, the Company had not been notified of any indemnification claims. Excluding the escrowed amounts, working capital adjustments, and transaction costs, the Company received net cash proceeds of \$36,266,809.

Approximately \$15,840,000 of the net proceeds from the sale of GBIH and net proceeds from the sale of Bach-Simpson was used to fully retire the Company's term facility, and an additional \$5,720,000 was used to reduce the outstanding principal of the Company's operating facility, including guarantees and the facilities cancelled.

Upon the successful completion of the sale of GBIH and Bach-Simpson, the Company's Board of Directors approved a special bonus in the amount of \$25,000 to the two members of its Special Committee, \$50,000 to the Chairman of the Special Committee, and \$25,000 to the Company's President and Chief Executive Officer. These bonuses totaling \$125,000 were paid during the fourth quarter of 2010.

The gain on disposition of subsidiaries has been increased by approximately \$5,000 to account for the settlement of the amount of Bach-Simpson Net Working Capital delivered to Wabtec. As at December 31, 2010, a settlement had not been reached on the amount of GBIH Net Working Capital delivered to Wabtec, and accordingly, the final net proceeds and gain on sale is still subject to change. On October 28, 2010, the Company received a notice from Wabtec pursuant to the Asset and Share Purchase Agreement dated July 14, 2010 detailing Wabtec's calculated differences between the estimated and delivered Net Working Capital related to their purchase of GBIH. Wabtec's calculation indicated that the delivered Net Working Capital was lower than the estimated Net Working Capital used to finalize the closing purchase price of GBIH by a total amount of approximately US \$673,000. Management made a settlement offer totaling US \$319,000 to resolve the Net Working Capital dispute. The impact of this offer has been reflected in these Consolidated Financial Statements. If this Net Working Capital dispute cannot be resolved between the parties it will be resolved through an independent arbitrator. Any further change to the Net Working Capital agreed to by the parties will result in an equal change to the gain recorded by the Company on the sale of GBIH.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

4. Discontinued operations (continued):

The Company's Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss) for the years ended December 31, 2010 and 2009 include the following information related to the discontinued operations of G&B and Bach-Simpson:

	2010	2009
Sales	\$ 18,602,590	\$ 30,492,255
Direct cost of sales, salaries and general and administrative expenses	13,778,499	22,573,338
Earnings before undernoted items	4,824,091	7,918,917
Amortization	85,378	81,415
Interest, net	875,439	1,318,881
Other, net	80,609	484,213
Earnings before income taxes	3,782,665	6,034,408
Gain on disposition of subsidiaries, before undernoted	24,892,687	-
Realization of cumulative translation adjustment loss	3,395,521	-
Income tax provision	4,359,151	2,006,677
Net earnings from discontinued operations	\$ 20,920,680	\$ 4,027,731

On July 28, 2010, the outstanding balance of the cumulative translation adjustment loss related to GBIH, included in accumulated other comprehensive income (loss), was recorded as a loss as part of net earnings from discontinued operations.

The Company's Consolidated Statements of Cash Flows for the years ended December 31, 2010 and 2009 include the following information related to the discontinued operations of G&B and Bach-Simpson:

	2010	2009
Cash provided by (used in):		
Operating activities		
Net earnings from discontinued operations	\$ 20,920,680	\$ 4,027,731
Amortization	363,808	507,350
Gain on sale of subsidiaries	(24,892,687)	-
Other	3,269,853	(95,408)
Change in non-cash working capital	2,463,148	-
	2,124,802	4,439,673
Investing activities	(68,532)	(254,196)
Increase in cash from discontinued operations	\$ 2,056,270	\$ 4,185,477

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

4. Discontinued operations (continued):

The following assets and liabilities of G&B and Bach-Simpson were included in the determination of the gain on sale realized on the Company's sale of two subsidiaries:

Current assets (including \$967,929 of cash)	\$ 12,096,847
Long-term assets	12,620,818
Total assets	24,717,665
Current liabilities	4,050,689
Long-term liabilities	1,471,854
Total liabilities	\$ 5,522,543
Net working capital	\$ 8,046,158

5. Inventories:

	2010	2009
Finished goods	\$ 5,515,417	\$ 10,085,312
Work in progress	293,782	1,434,443
Raw materials	555,555	2,957,643
	\$ 6,364,754	\$ 14,477,398

During the year ended December 31, 2010, the Company's continuing operations expensed \$24,195,120 of inventory (2009 - \$19,215,262), including a net inventory provision of \$525,761 (2009 - \$346,896) to write-down the value of inventory to net realizable value. There were no inventory write-down reversals during the year.

6. Costs and estimated earnings on uncompleted contracts:

	2010	2009
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

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

7. Income taxes:

The income tax provision differs from the amount which would result from applying the expected income tax rate to earnings (loss) before income taxes. The reasons for the difference are as follows:

	2010	2009
Loss from continuing operations before income taxes	\$ (5,483,577)	\$ (14,369,825)
Expected income tax rate	29.0%	31.0%
Computed expected income tax recovery	\$ (1,590,237)	\$ (4,454,646)
Difference resulting from:		
Other non-taxable items	(1,636)	126,089
Rate differences on temporary differences	(7,798)	730,306
Withholding taxes on intercompany dividends	347,771	175,957
Other	33,427	(84,507)
Provision for income tax recovery	\$ (1,218,473)	\$ (3,506,801)

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

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	2010	2009
Future tax assets:		
Financing costs	\$ 5,415	\$ 32,709
Plant and equipment and intangible assets principally due to differences in amortization	-	36,325
Net operating loss carry forwards	3,135,297	4,760,409
Environmental liability related to land and building	333,012	333,012
Scientific research and experimental development expenditures	40,350	381,042
Non-deductible reserves	417,199	425,535
Other	27,786	7,592
	3,959,059	5,976,624
Valuation allowance	-	(4,013)
	3,959,059	5,972,611
Future tax liabilities:		
Management contract payments	-	(1,113,405)
Plant and equipment and intangible assets principally due to differences in depreciation and amortization	(1,497,839)	(1,844,552)
Scientific research and experimental development expenditures	(41,914)	(140,983)
	(1,539,753)	(3,098,940)
Net future income tax assets	\$ 2,419,306	\$ 2,873,671

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

7. Income taxes (continued):

Net future tax assets are classified for balance sheet purposes as follows:

	2010	2009
Current assets	\$ 417,199	\$ 475,535
Long-term assets	3,541,860	5,497,076
Current liabilities	(41,914)	(140,983)
Long-term liabilities	(1,497,839)	(2,957,957)
	\$ 2,419,306	\$ 2,873,671

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the temporary differences are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. The Company has non-capital losses of approximately \$11,622,000 which can be carried forward to reduce future Canadian taxable income. The losses will expire in 2026 to 2030. The Company also has net capital losses of approximately \$54,000 which can be carried forward indefinitely to reduce future taxable capital gains. Due to uncertainty of realization, a valuation allowance of approximately \$nil (2009 - \$4,000) has been recorded against the future tax benefit of the capital losses.

8. Property, plant and equipment:

December 31, 2010	Cost	Accumulated amortization	Net book value
Land	\$ 4,543,191	\$ -	\$ 4,543,191
Buildings	5,856,415	424,259	5,432,156
Machinery and equipment	10,217,317	2,732,221	7,485,096
Building improvements	550,079	147,614	402,465
Computers	432,195	201,458	230,737
Vehicles	110,599	97,114	13,485
Furniture	180,066	104,337	75,729
Leasehold improvements	104,488	104,488	-
Construction in progress	113,739	-	113,739
	\$ 22,108,089	\$ 3,811,491	\$ 18,296,598

December 31, 2009	Cost	Accumulated amortization	Net book value
Land	\$ 4,671,561	\$ -	\$ 4,671,561
Buildings	8,449,299	582,742	7,866,557
Machinery and equipment	12,721,668	3,557,895	9,163,773
Building improvements	527,164	92,605	434,559
Computers	1,047,568	783,956	263,612
Vehicles	107,485	100,331	7,154
Furniture	378,703	212,692	166,011
Leasehold improvements	148,302	105,449	42,853
Construction in progress	160,790	-	160,790
	\$ 28,212,540	\$ 5,435,670	\$ 22,776,870

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

9. Intangible assets:

December 31, 2010	Cost	Accumulated amortization	Net book value
Customer relationships	\$ 380,000	\$ 166,833	\$ 213,167
Trade names and trademarks	230,000	172,853	57,147
Non-compete agreements	210,000	157,822	52,178
	\$ 820,000	\$ 497,508	\$ 322,492

December 31, 2009	Cost	Accumulated amortization	Net book value
Customer relationships	\$ 380,000	\$ 80,750	\$ 299,250
Trade names and trademarks	230,000	97,750	132,250
Non-compete agreements	210,000	89,250	120,750
	\$ 820,000	\$ 267,750	\$ 552,250

10. Goodwill:

CICA Handbook section 3064 requires goodwill to be tested for impairment on an annual basis or more frequently if events or circumstances indicate that the carrying amount may not be recoverable. During the third quarter of 2010, the Company's remaining goodwill in the amount of \$8,980,029 was disposed of with the sale of GBIH and Bach-Simpson. The disposed goodwill related to the original acquisitions of G&B and Bach-Simpson.

At December 31, 2009, the Company completed its annual impairment test whereby the Company estimated the fair value of each reporting segment and compared it to the segment's book value. This testing indicated that the recorded value of Locomotive segment goodwill exceeded its fair value and that a non-cash write-down in the amount of \$2,587,603 was required for goodwill recorded in 2007 related to the acquisition of CADRI. The primary contributing factor to the impairment of goodwill was the operating losses in the Locomotive segment.

11. Credit facilities:

The Company's Credit Agreement with its Lenders originally provided for a maximum amount of \$34,100,000 and was comprised of: (i) a demand revolving operating facility in the principal amount of \$10,000,000, subject to borrowing base requirements, the proceeds of which were to be used to finance ongoing operating and working capital requirements; (ii) a five year revolving, reducing, term loan in the principal amount of \$22,000,000 to finance the CAD acquisition (note 20), working capital, capital expenditures and other acquisitions; (iii) a hedge facility in the maximum aggregate amount of \$2,000,000 to enable the Company to incur interest rate related risk and foreign exchange related risk under hedge contracts between the Company and the Lenders; and (iv) a credit card facility in the aggregate maximum amount of \$100,000.

On November 12, 2009, Management and the Lenders agreed to terms for the Second Amending Agreement to the Company's Credit Agreement. The Term Facility was changed from a revolving, reducing facility to a reducing facility. The principal repayments of long-term debt scheduled for October 1, 2009 and January 1, 2010 totaling \$1,540,000 were postponed until the expiry date of the term credit facility in 2012. The Company's Operating Facility was renewed to the next annual review scheduled for April, 2010 and remained at \$10,000,000. However, the borrowing base related to the Company's inventory was expanded from \$5,000,000 to \$6,500,000, effective February 28, 2010. The Company's Hedge Facility was capped at the then current exposure level. A new earnings before interest, taxes and amortization ("EBITDA") covenant was introduced, requiring the Company to meet minimum quarterly EBITDA targets, with a 15% tolerance, through to the end of 2010. The Lenders agreed to provide the Company with tolerance for missing its Funded Debt to EBITDA and Fixed Charge Coverage covenants through to the end of the first quarter of 2010. The amendments to the Company's Credit Agreement required the Company to undertake to proceed with the sale of one or more subsidiaries before January 31, 2010, with a transaction close date of no later than February 28, 2010; or alternatively obtain a commitment by January 31, 2010 for a new facility of not less than \$5,000,000, for a combination of equity and subordinated debt, which was to include a minimum equity injection of \$2,500,000, to be completed by March 31, 2010. Under the amended terms of the Credit Agreement, the Company was required to provide the Lenders with specified monthly financial information, provide regular updates on the divestiture process, and implement monthly financial monitoring by an independent accounting firm.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

11. Credit facilities (continued):

On January 28, 2010, Management and the Lenders agreed to terms for the Third Amending Agreement to the Company's Credit Agreement. The amendments required a final offer of purchase for one or more subsidiaries before March 1, 2010, with a transaction close date of no later than March 31, 2010; or, alternatively, a commitment by March 1, 2010 for a new facility of not less than \$5,000,000, for a combination of equity and subordinated debt, which was to include a minimum equity injection of \$2,500,000, to be completed by March 31, 2010. Under the amended terms of the Credit Agreement, the Company was required to continue to provide the Lenders with specified monthly financial information and provide regular updates on the divestiture process.

On March 31, 2010, the Company and its Lenders agreed to terms for the Fourth Amending Agreement to the Company's Credit Agreement. The amendments required the Company to complete the sale of one or more of its subsidiaries with a transaction closing date of no later than June 30, 2010; or a debt or equity financing of not less than \$5,000,000, including a minimum equity injection of \$2,500,000, to be completed by June 30, 2010. The Company was required to provide regular updates to the Lenders regarding the progress towards completion of these requirements. The Company was also required to provide the Lenders with enhanced financial reporting.

On June 30, 2010, Management and the Lenders agreed to terms for the Fifth Amendment to the Company's Credit Agreement. In accordance with this Amendment, the Company undertook to proceed with the sale of GBIH before July 31, 2010, and the sale of Bach-Simpson before October 31, 2010 with the net proceeds on the sale of each to be used to retire the Company's various credit facilities. On July 28, 2010, the sale of GBIH was completed and in accordance with the Fifth Amending Agreement to the Credit Agreement, the Company made payments to its Lenders in the amounts of \$15,840,000, to fully retire the Company's term facility, and \$3,368,000, to reduce the outstanding principal of the Company's operating facility, including guarantees, to an available balance \$5,000,000. Under this Amendment, the Company's hedge facility was cancelled and the interest rate swap contracts were terminated. On August 24, 2010, the Company repaid the remaining \$2,352,000 principal balance of its operating facility using partial net proceeds from the sale of the assets of Bach-Simpson.

On August 17, 2010, the Company and its Lenders agreed to terms for the Sixth Amending Agreement to the Company's Credit Agreement. In accordance with this Amendment, the Lenders undertook, following completion of the sale of the assets of Bach-Simpson, to maintain an operating facility of up to a maximum of \$1,200,000 solely for the purposes of issuing letters of credit, as well as ancillary facilities for electronic funds transfers and company credit cards. At December 31, 2010, the undrawn portion of the Company's original operating facility was \$126,892 (2009 - \$2,220,465).

The balances outstanding at December 31 under the Company's amended/retired credit facilities are as follows:

	2010	2009
Operating facility	\$ -	\$ 6,720,000
Term facility	-	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

Prior to retirement, the demand revolving operating facility bore interest at a floating rate of 2.25% (2009 - between 0.75% and 2.25%) over the Canadian bank prime lending rate, or 3.5% (2009 - between 2.0% and 3.5%) over the applicable bankers acceptance rate.

Prior to retirement, the five year reducing term loan facility bore interest at a floating rate of 2.75% (2009 - between 1.0% and 2.75%) over the Canadian bank prime lending rate, or 4.0% (2009 - between 2.25% and 4.0%) over the applicable bankers acceptance rate. The principal amount available under the term facility was reduced by an amount equal to \$770,000 on the first day of each calendar quarter commencing on April 1, 2008 and continuing thereafter until November 13, 2012. Each quarter, the Company was required to repay any amount of outstanding principal which exceeded the adjusted available amount on the term facility. The principal repayments due on October 1, 2009 and January 1, 2010 totaling \$1,540,000 had been postponed until the expiry date of the term credit facility in 2012.

The Company had not been in compliance with all of the covenants under its Credit Agreement since the fourth quarter of 2008. As a result of these covenant breaches, the Lenders were in a position to take enforcement action against the Company that could have resulted in the curtailment or termination of all or a portion of the credit facilities, demand for payment and/or realization on security. Since there was a risk that the term facility could have been terminated within one year, the Company had classified all of its long-term debt as a current liability on the Consolidated Balance Sheets.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

11. Credit facilities (continued):

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.

The balances outstanding at December 31, 2010 under the Company's September 24, 2010 revolving facility is as follows:

Operating facility	\$	-
Letters of credit issued		-
Total amount drawn upon facility		-
Total amount of facility		1,200,000
Total undrawn portion of facility	\$	1,200,000

12. Financial instruments and financial risk management:

(a) Financial instruments:

The carrying values of the Company's financial assets and liabilities, consisting of cash and cash equivalents, accounts receivable, escrow receivables, operating loan, accounts payable and accrued liabilities, environmental liability, and customer deposits, approximate their fair values due to the relatively short periods to maturity of the instruments. The carrying value of the floating rate long-term debt is assumed to approximate its fair value as interest is based on market related variable rates. Derivative financial instruments are measured at fair value which was determined based on prevailing market rates for instruments with similar characteristics.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. To make the required disclosures for measuring and disclosing fair values, the Company has classified fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The classification, carrying values, fair values and fair value levels of the Company's financial instruments measured at fair value or on a recurring basis in the Consolidated Balance Sheets are as follows:

	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets held for trading:				
Cash and cash equivalents (1)	\$ 11,625,522	\$ 11,625,522	\$ 2,005,824	\$ 2,005,824
Financial liabilities held for trading:				
Interest rate swap contracts (2)	-	-	12,636	12,636

(1) Level 1 - Based on quoted market prices in active markets.

(2) Level 2 - Inputs, other than quoted prices in active markets, that are observable, either directly or indirectly.

(3) Level 3 - Unobservable inputs that are not corroborated by market data.

There were no transfers between Level 1, 2 and 3 in 2010 or 2009.

At December 31, 2010, transaction and financing costs in the amount of \$nil (2009 - \$178,000) are included in the carrying amount of the amount outstanding under the term facility, and are recognized using the effective interest rate method.

At December 31, 2010, all of the Company's financial instruments were recorded on the Consolidated Balance Sheets at amortized cost with the exception of cash and cash equivalents which were recorded at fair value. The Company did not have any available for sale or held to maturity financial instruments during the year ended December 31, 2010 or during the year ended December 31, 2009.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

12. Financial instruments and financial risk management (continued):

(a) Financial instruments (continued):

During the second quarter of 2009, the Company entered into interest rate swap contracts to fix the variable portion (Canadian Dealer Offered Rate ("CDOR") excluding the applicable margin) on a portion of the borrowings under the reducing long-term credit facility. The Company's interest rate swap contracts were terminated on July 28, 2010.

(b) Financial risk management:

The Company has exposure to credit risk, market risk and liquidity risk. 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.

(i) Credit risk:

Credit risk represents the financial loss that the Company would experience if a counterparty to a financial instrument held by the Company failed to meet its obligations in accordance with the terms and conditions of its contracts with the Company or if there is a concentration of transactions carried out with the same counterparty. The carrying amount of financial assets represents the maximum credit exposure.

The Company's credit risk is primarily attributable to its accounts receivable. The amounts disclosed in the Consolidated Balance Sheets are net of allowances for doubtful accounts, estimated by the Company's Management based on prior experience and their assessment of the current economic environment. The Company establishes an allowance for doubtful accounts that represents its estimate of expected losses in respect of accounts receivable. The main component of this allowance relates to individually significant exposures for accounts receivable that are considered impaired, which is defined as amounts outstanding beyond normal credit terms and conditions for the respective customers and, based upon Management's evaluation, a risk of non-payment exists.

Following the sale of GBIH and Bach-Simpson, one customer now represents a significant portion of Company's total revenue from continuing operations. This results in the Company having a greater concentration of credit risk with this customer who is a Crown Corporation with a strong credit rating (note 17).

The Company believes that its allowance for doubtful accounts is sufficient to reflect the related credit risk, indicated as follows:

	2010	2009
Neither impaired nor past due	\$ 3,277,154	\$ 4,896,409
Impaired	88,617	84,115
Not impaired and past due in the following periods:		
Within 30 days	430,196	1,626,510
31 to 60 days	210,934	486,984
61 to 90 days	46,023	153,714
Over 90 days	-	57,558
Allowance for doubtful accounts	(88,617)	(84,115)
Trade receivables	3,964,307	7,221,175
Other receivables	472,500	1,276,352
Total accounts receivable	\$ 4,436,807	\$ 8,497,527

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

12. Financial instruments and financial risk management (continued):

(b) Financial risk management (continued):

(i) Credit risk (continued):

During the year ended December 31, 2010, the Company's continuing operations charged \$8,495 of doubtful accounts (2009 - \$295,680). Also during the year ended December 31, 2010, the Company increased allowance for doubtful accounts in the amount of \$32,819 with an offset to the Company's continuing operations general and administration expense (2009 - \$93,710) and recorded interest income in the amount of \$nil on its impaired accounts receivable (2009 - \$nil).

(ii) Market risk:

Market risk is the risk of loss that may arise from changes in market prices, such as foreign exchange rates and interest rates, which will affect the Company's income or the value of its financial instruments.

The Company is exposed to financial risk that arises from the interest rate differentials between the market interest rate and the rates on its cash and cash equivalents, operating loan, and long-term debt not hedged by interest rate swaps. Changes in variable interest rates could cause unanticipated fluctuations in the Company's operating results. As at December 31, 2010, a 100 basis point increase in the Bank of Canada prime lending rate would impact the Company's year-end net earnings (loss) from continuing operations by approximately \$nil (2009 - \$94,000).

The Company has a substantial number of transactions denominated in United States dollars and is exposed to risk with respect to fluctuations in exchange rates between Canadian and United States dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. As a result, variations in foreign exchange rates could cause unanticipated fluctuations in the Company's operating results. As at December 31, 2010, a 1% strengthening of the United States dollar against the Canadian dollar would improve upon the Company's year-end net earnings (loss) from continuing operations by approximately \$101,000 (2009 - \$88,000), and improve year to date comprehensive income (loss) by approximately \$nil (2009 - \$92,000).

(iii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 22. It also manages liquidity risk by continuously monitoring cash flows to ensure that it will always have sufficient liquidity to meet its liabilities when due. On August 17, 2010, the Company and its Lenders agreed to terms for the Sixth Amending Agreement to the Company's Credit Agreement. In accordance with this Amendment, the Lenders undertook, following completion of the sale of the assets of Bach-Simpson, to maintain an operating facility of up to a maximum of \$1,200,000 solely for the purposes of issuing letters of Credit, and well as ancillary facilities for electronic funds transfers and company credit cards. At December 31, 2010, the undrawn portion of the Company's original operating facility was \$126,896 (2009 - \$2,220,465). Utilizations of the credit facilities includes drawings under the bank credit facilities and issuances of letters of credit.

During the third quarter of 2010, the outstanding principal of the term and operating facilities were repaid in full with proceeds from the sale of subsidiaries as described in note 4.

On September 24, 2010, the Company negotiated a new Credit Agreement with one of its Lenders as described in note 11. No drawings have been made under the new credit facility as at December 31, 2010.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

12. Financial instruments and financial risk management (continued):

(b) Financial risk management (continued):

(iii) Liquidity risk (continued):

The following are the contractual maturities, excluding interest payments, reflecting undiscounted future cash disbursements of the Company's financial liabilities at December 31, 2010:

	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years
Accounts payable and accrued liabilities	\$ 7,142,429	\$ -	\$ -	\$ -
Purchase commitments	13,064,963	1,897,662	-	-
	\$ 20,207,392	\$ 1,897,662	\$ -	\$ -

13. Environmental liability:

In June of 2008, CADRI exercised an option to purchase the land and building it had previously been leasing. It was known that costs would be incurred to remediate environmental contaminants carried over from the property's prior use as a foundry. A third party evaluator initially determined that this environmental liability approximates \$1,312,000. These future environmental remediation costs were factored into the purchase price. Since it is likely that CADRI will sustain these environmental remediation costs, an initial environmental liability reserve in the amount of \$1,312,000 has been recorded with an offsetting increase to the carrying value of the land and building. As environmental remediation costs are incurred, they will be charged against the environmental liability reserve. In 2010, the Company has charged \$nil against the environmental reserve (2009 - \$2,040). Cumulatively, the Company has charged \$74,036 against the environmental reserve (2009 - \$74,036). The carrying value of the land and building value has been increased by \$107,625, representing the unamortized intangible asset value relating to the option to purchase as at the date of the acquisition, and by \$93,106 of transaction costs.

14. Share capital:

(a) Common and preferred shares:

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. At December 31, 2010, the Company had issued 15,247,400 common shares (2009 - 15,239,900) and had not issued any preferred shares.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

14. Share capital (continued):

(b) Stock options:

The Company has granted stock options to officers and employees to purchase common shares. The options have a maximum term of ten years and vest over periods of up to three years from the date of grant. Changes in the number of options outstanding, with their weighted average exercise prices, are summarized below:

	Number of options	2010 Weighted average exercise price	Number of options	2009 Weighted average exercise price
Opening balance	1,121,942	\$ 3.30	1,511,844	\$ 3.30
Exercised	(7,500)	0.72	-	-
Cancelled or expired	(836,942)	3.05	(389,902)	3.31
Ending balance	277,500	\$ 4.12	1,121,942	\$ 3.30

At December 31, 2010, the stock options granted to officers, directors and employees to purchase common shares expire in the months noted as follows:

	Number of options	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
December 31, 2010				
November 2012	50,000	\$ 4.35	50,000	\$ 4.35
December 2013	17,500	0.72	11,666	0.72
November 2014	210,000	4.35	210,000	4.35
Total	277,500	\$ 4.12	271,666	\$ 4.19

At December 31, 2009, the stock options granted to officers, directors and employees to purchase common shares expire in the months noted as follows:

	Number of options	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
December 31, 2009				
June 2010	30,000	\$ 3.70	30,000	\$ 3.70
November 2010	85,000	1.30	85,000	1.30
January 2011	100,000	2.00	100,000	2.00
August 2011	1,942	3.10	1,942	3.10
November 2012	50,000	4.35	50,000	4.35
December 2012	65,000	4.59	43,332	4.59
March 2013	50,000	4.25	16,666	4.25
June 2013	7,500	3.82	7,500	3.82
December 2013	107,500	0.72	40,833	0.72
August 2014	140,000	4.90	140,000	4.90
November 2014	210,000	4.35	140,000	4.35
November 2015	100,000	2.84	100,000	2.84
December 2016	125,000	3.12	125,000	3.12
April 2017	50,000	3.30	50,000	3.30
Total	1,121,942	\$ 3.30	930,273	\$ 3.34

Fair value disclosures:

The fair value of each stock option grant, on the date of the grant, is used to determine stock-based compensation expense with the Black-Scholes option-pricing model. No options were granted in 2010 or 2009.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

15. Commitments:

The Company is committed to minimum rental payments under long-term operating leases for equipment, excluding operating costs, as follows:

2011	\$	77,056
2012		58,345
2013		58,345
2014		43,101
2015		16,896
Thereafter		6,894

The Company is committed to payments under fixed price purchase contracts for the purchase of materials as follows:

2011	\$	13,064,963
2012		1,897,662

These contracts contain clauses that allow the Company to renegotiate the purchase commitments in the event there is a material change to the underlying sales contract. Included in the above are purchase commitments totaling \$3,306,000 with a company owned by the Company's President and Chief Executive Officer.

16. Contingencies:

- (a) The Company is a party to executive employment contracts, each requiring payment of a certain amount to an executive upon a change of control and the occurrence of an event that constitutes constructive dismissal of that executive within twelve months of the change of control. This would result in a total additional expense of up to approximately \$319,000 for all remaining executive employment contracts. During the year, and in relation to the sale of GBIH and Bach-Simpson (note 4), the Company recorded expenses in the amount of approximately \$870,000 related to the restructuring of Management.
- (b) The Company has a balance of \$1,500,491 received in prepayments from its largest customer and has issued an irrevocable standby letter of credit in the amount of \$1,000,000 as security against these prepayments. Upon written demand, the customer is able to draw partially, or in full, upon this guarantee. The guarantee expires on December 10th annually and is automatically renewable for an additional period of one year.
- (c) The Company has issued guarantees in the form of irrevocable standby letters of credit, in amounts totaling \$73,108, as security against contract tenders. Upon written demand, the customers are able to draw partially, or in full, upon these guarantees. These guarantees are insured under Export Development Canada's performance security guarantee program. The guarantees expire between April, 2011 and March, 2012.
- (d) In the normal course of business, the Company provides indemnification commitments to customers in the form of annual performance bonds. These indemnification commitments generally require the Company to compensate the customers, upon demand, for costs or losses resulting from the Company's failure to fulfill its contractual obligations. The terms of these indemnification agreements vary based on the contract and generally do not exceed one year. As at December 31, 2010, the Company's potential liability under indemnification commitments is \$15,000,000 (2009 - \$15,000,000). Historically, the Company has not made any payments under such indemnifications and accordingly, as of December 31, 2010, no amount has been accrued in the Consolidated Financial Statements.
- (e) The Company sometimes enters in to agreements under which the Company could be responsible for reimbursement of certain expenses in addition to those otherwise provided for in the Consolidated Financial Statements. In the opinion of management, the outcome of these matters will not have a material adverse effect on the Company's financial position or the results of its operations as the maximum liability is approximately \$500,000.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

17. Economic dependence:

- (a) For the year ended December 31, 2010, revenue from the Company's largest locomotive customer totaled approximately \$30,451,000, or 67% of the Company's total revenues from continuing operations which is normal for the Company since it performs large scale remanufacturing projects. For the year ended December 31, 2009, revenue from the Company's largest locomotive customer totaled approximately \$15,698,000, or 44% of the Company's total revenues from continuing operations.
- (b) Accounts receivable from the Company's largest customer was approximately 55% of the total accounts receivable as at December 31, 2010 (2009 - 25%).

18. Amortization:

	2010	2009
Amortization of property, plant and intangible assets	\$ 1,165,395	\$ 1,142,204
Adjustment for the variation of property, plant and equipment included in inventories	66,719	190,559
Amortization included in the consolidated statements of comprehensive income (loss)	\$ 1,232,114	\$ 1,332,763
Consists of:		
Amortization of production property, plant and equipment	\$ 951,148	\$ 1,057,294
Amortization of non-production property, plant and equipment and intangible assets	280,966	275,469
Amortization included in the consolidated statements of earnings (loss) and comprehensive income (loss)	\$ 1,232,114	\$ 1,332,763

19. Earnings (loss) per share:

The computations for basic and diluted common shares outstanding are as follows:

	2010	2009
Weighted average number of common shares outstanding:		
Basic	15,241,133	15,239,900
Effect of stock options	-	-
Diluted	15,241,133	15,239,900

Stock options to purchase 277,500 (2009 - 1,121,942) common shares are excluded from the weighted average common shares in the calculation of diluted earnings (loss) per share as they are anti-dilutive.

20. Acquisition:

On November 14, 2007, the Company acquired substantially all of the business assets and net working capital of Canadian Allied Diesel Co. Ltd., CAD Railway Services Inc., Lachine Rail Centre Inc. and Engine System Development Centre Inc. (together "CAD").

On March 23, 2009, the Company settled the dispute with the vendors over the net working capital shortfall. Under the settlement arrangement, the Company received \$1,500,000 plus interest of \$36,000.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

21. Related party transactions:

- (a) During the year ended December 31, 2010, CADRI expensed approximately \$903,000 for management services provided by a company owned by the Company's President and Chief Executive Officer (2009 - \$340,000). The amounts expensed in 2010 include a Management restructuring expense of \$570,000, of which only fifty percent has been paid, and a bonus in the amount of \$25,000, both related to the successful completion of the sales of Bach-Simpson and GBIH.
- (b) In the normal course of business, CADRI purchased approximately US \$3,898,000 (2009 - US \$2,334,000) of inventory from a company owned by the Company's President and Chief Executive Officer. These inventory purchases were made under commercial terms and conditions for which the Company holds an exclusive distributorship for some of the components for a major contract required by the customer and comparable to those of CADRI's other inventory purchases, and have been recorded at the exchange amount, being the amounts agreed by the two parties. As at December 31, 2010 \$311,000 (2009 - \$208,000) was outstanding from the related party and is included as part of accounts payable and accrued liabilities.

22. Capital risk management:

The Company's objectives in managing capital are to ensure sufficient liquidity to support its business requirements throughout 2010 as the economy recovers. The Company defines capital that it manages as the aggregate of its shareholders' equity, which is comprised of issued capital, contributed surplus, accumulated other comprehensive loss 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, may issue or 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. The Company monitors debt leverage ratios as part of the management of liquidity and shareholders' return and to support future development of the business.

The Company's overall strategy with respect to capital risk management has not changed from the year ended December 31, 2009.

23. Segmented information:

The Company's continuing operations are conducted through one reportable business segment; locomotive, which is primarily the remanufacture and repair of locomotives and railcars. The following is a summary of the Company's sales (from continuing operations), property, plant and equipment, intangible assets, and goodwill, by geographic segment:

2010	International	United States	Canada	Consolidated
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	-	-	18,296,598	18,296,598
Intangible assets at December 31	-	-	322,492	322,492

2009	International	United States	Canada	Consolidated
Sales for the year ended December 31	\$ 2,132,150	\$ 8,213,710	\$ 25,660,427	\$ 36,006,287
Property, plant and equipment at December 31	-	3,827,521	18,949,349	22,776,870
Intangible assets at December 31	-	-	552,250	552,250
Goodwill at December 31	-	8,194,136	785,893	8,980,029

24. Comparative figures:

Certain of the 2009 comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

GLOBAL RAILWAY INDUSTRIES LTD.

Notes to Consolidated Financial Statements (continued)

Years ended December 31, 2010 and 2009

25. Subsequent events:

- (a) On January 31, 2011, the Company recovered the first installment of escrowed sale proceeds from the sale of GBIH. The amount of this installment was \$1,750,000.

On February 22, 2011, the Company recovered the first installment of escrowed sale proceeds from the sale of Bach-Simpson. The amount of this installment was \$650,000.

- (b) On March 3 2011 Canada Revenue Agency ("CRA") officially advised CADRI that the 2008 Scientific Research and Experimental Development ("SRED") claim was going to be disallowed based on documentation and explanations provided to CRA for SRED efforts. CADRI previously reported a 2008 SRED receivable in the amount of \$450,000 based on claims filed of \$665,000 which have been audited by CRA. The 2009 amounts were claimed on a similar basis to 2008 and due to the uncertainty of collection, the recognition standard under GAAP is no longer considered to have been met, and accordingly, CADRI has reversed \$740,000 of previously recognized SRED claims through cost of sales in 2010. CADRI management continues to believe these amounts qualify for SRED recognition and with the assistance of the Company's advisors intend to pursue these claims with CRA.