Consolidated Interim Financial Statements of

GLOBAL RAILWAY INDUSTRIES LTD.

(In Canadian dollars)
Three months ended March 31, 2011 and 2010
(Unaudited)

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Interim Statements of Financial Position
(In Canadian dollars)
March 31, 2011, with comparative figures as at December 31, 2010 and January 1, 2010
(Unaudited)

	March 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets:			
Cash and cash equivalents	$ 6,344,705	$ 5,357,742	$ 2,005,824
Short-term investments	6,294,094	6,267,780	-
Trade and other receivables	5,387,137	4,436,807	8,497,527
Escrow receivables (note 4)	5,406,091	7,821,000	-
Inventories (note 5)	5,588,832	6,364,754	14,477,398
Costs and estimated earnings on uncompleted contracts in excess of billings	5,786,990	5,353,997	5,917,775
Prepaid expenses	638,022	450,539	1,014,439
	35,445,871	36,052,619	31,912,963
Non-current assets:			
Property, plant and equipment	8,828,771	8,919,090	22,776,870
Intangible assets	-	-	9,532,279
Deferred tax assets	4,965,383	6,453,663	5,828,611
	13,794,154	15,372,753	38,137,760
Total assets	$ 49,240,025	$ 51,425,372	$ 70,050,723
Liabilities and Equity			
Current liabilities:			
Operating loan	$ -	$ -	$ 6,720,000
Current portion of long-term debt	-	-	17,201,750
Trade and other payables	6,044,271	6,259,833	8,024,410
Current portion of provisions (note 6)	285,000	285,000	824,942
Current portion of customer deposits	703,472	1,217,475	2,497,360
Income taxes payable	181,190	156,312	1,870,353
	7,213,933	7,918,620	37,138,815
Non-current liabilities:			
Provisions (note 6)	1,329,614	1,408,098	1,140,408
Customer deposits	207,544	283,016	1,246,036
Deferred tax liabilities	10,527	1,539,753	3,098,940
	1,547,685	3,230,867	5,485,384
Equity:			
Share capital	26,374,781	26,374,781	26,366,433
Contributed surplus	2,747,315	2,746,742	2,699,847
Retained earnings (deficit)	11,356,311	11,154,362	(1,639,756)
	40,478,407	40,275,885	27,426,524
Contingencies (note 8)			
Economic dependence (note 9)			
Total liabilities and equity	$ 49,240,025	$ 51,425,372	$ 70,050,723

See accompanying notes to the Consolidated Interim Financial Statements.

On behalf of the Board:

"signed" Thomas Dea
Chairman of the Board

"signed" Laurie Bennett
Chairman of the Audit Committee

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Interim Statements of Comprehensive Income (Loss)
(In Canadian dollars)
Three months ended March 31, 2011, with comparative figures for 2010
(Unaudited)

		2011		2010
Sales	$	12,179,575	$	10,997,959
Cost of goods sold		10,645,108		10,330,735
Gross profit		1,534,467		667,224
Other operating expenses:				
Administration expenses		1,179,850		1,221,434
Selling expenses		155,699		191,123
		1,335,549		1,412,557
Earnings (loss) from operating activities		198,918		(745,333)
Finance income (note 11)		52,959		122,901
Finance costs (note 11)		(64,368)		(166,077)
Net finance costs		(11,409)		(43,176)
Earnings (loss) from continuing operations before income taxes		187,509		(788,509)
Income tax expense (recovery) (note 7):				
Current		26,506		13,050
Deferred		(40,946)		(207,904)
		(14,440)		(194,854)
Net earnings (loss) from continuing operations		201,949		(593,655)
Earnings from discontinued operations, net of income taxes (note 4)		-		711,348
Net earnings		201,949		117,693
Other comprehensive loss, net of income taxes:				
Foreign currency translation differences for foreign operations		-		(403,124)
Comprehensive income (loss)	$	201,949	$	(285,431)
Earnings per share (note 10):				
Basic	$	0.01	$	0.01
Diluted	$	0.01	$	0.01
Earnings (loss) per share from continuing operations (note 10):				
Basic	$	0.01	$	(0.04)
Diluted	$	0.01	$	(0.04)
Earnings per share from discontinued operations (note 10):				
Basic	$	-	$	0.05
Diluted	$	-	$	0.05

See accompanying notes to the Consolidated Interim Financial Statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Interim Statements of Changes in Equity
(In Canadian dollars)
Three months ended March 31, 2011, with comparative figures for the three months ended March 31, 2010
(Unaudited)

	Number of common shares issued	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings (deficit)	Total equity
Balance at January 1, 2010	15,239,900	$ 26,366,433	$ 2,699,847	$ -	$ (1,639,756)	$ 27,426,524
Net earnings	-	-	-	-	117,693	117,693
Stock-based compensation expense	-	-	12,456	-	-	12,456
Other comprehensive loss:						-
Foreign currency translation differences	-	-	-	(403,124)	-	(403,124)
Balance at March 31, 2010	15,239,900	$ 26,366,433	$ 2,712,303	$ (403,124)	$ (1,522,063)	$ 27,153,549
Balance at January 1, 2011	15,247,400	$ 26,374,781	$ 2,746,742	$ -	$ 11,154,362	$ 40,275,885
Net earnings	-	-	-	-	201,949	201,949
Stock-based compensation expense	-	-	573	-	-	573
Balance at March 31, 2011	15,247,400	$ 26,374,781	$ 2,747,315	$ -	$ 11,356,311	$ 40,478,407

See accompanying notes to the Consolidated Interim Financial Statements.

GLOBAL RAILWAY INDUSTRIES LTD.

Consolidated Interim Statements of Cash Flows
(In Canadian dollars)
Three months ended March 31, 2011, with comparative figures for 2010
(Unaudited)

	2011	2010
Cash provided by (used in):		
Cash flows from operating activities:		
Net earnings (loss) from continuing operations	$ 201,949	$ (593,655)
Adjustments for:		
Income tax recovery	(14,440)	(194,854)
Stock-based compensation expense	573	12,456
Depreciation of plant and equipment	106,068	255,699
Depreciation of intangibles	-	31,500
Variation of depreciation included in inventories	26,363	64,543
Net finance costs	11,409	43,176
	331,922	(381,135)
Change in:		
Trade and other receivables	(854,188)	774,258
Escrow receivables	2,426,314	-
Inventories	749,559	168,570
Costs and estimated earnings on uncompleted contracts in excess of billings	(539,929)	2,460,620
Prepaid expenses	(187,483)	(167,409)
Trade and other payables	(215,563)	562,989
Provisions	(112,746)	(718,175)
Customer deposits	(514,003)	333,396
	751,961	3,414,248
Interest paid	(4,071)	(106,221)
Income taxes paid	(1,628)	-
Net cash from operating activities	1,078,184	2,926,892
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	(15,749)	(72,930)
Net cash from (used in) investing activities	(15,749)	(72,930)
Cash flows from financing activities:		
Repayment of operating loan	-	(1,500,000)
Repayment of customer deposits	(75,472)	(596,604)
Net cash used in financing activities	(75,472)	(2,096,604)
Increase in cash and cash equivalents from continuing operations	986,963	757,358
Cash provided by discontinued operations (note 4)	-	340,220
Increase in cash and cash equivalents	986,963	1,097,578
Cash and cash equivalents, beginning of period	5,357,742	2,005,824
Cash and cash equivalents, end of period	$ 6,344,705	$ 3,103,402

See accompanying notes to the Consolidated Interim Financial Statements.

1. Nature of operations:

Global Railway Industries Ltd. ("the Company") is a company domiciled in Canada, with its Registered Office located at 12220 Stony Plain Road, Edmonton, AB, T5N 3Y4. The Company designs, manufactures, remanufactures, and markets railway products, equipment, locomotives, and services to the railway industry. The Company was incorporated in the Province of Alberta and is listed under the symbol "GBI" on the Toronto Stock Exchange.

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

2. Basis of preparation:

These Consolidated Interim Financial Statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") and in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. These are the Company's first IFRS Consolidated Interim Financial Statements for part of the period covered by the first IFRS annual Consolidated Financial Statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The Consolidated Interim Financial Statements do not include all of the information required for full annual Consolidated Financial Statements.

The preparation of the Consolidated Interim Financial Statements in accordance with IFRS resulted in changes to the accounting policies as compared with the Company's most recent annual consolidated financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Interim Financial Statements.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 14. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under Canadian GAAP to under IFRS.

These Consolidated Interim Financial Statements are presented in Canadian dollars, and are prepared on the historical cost basis.

These Consolidated Interim Financial Statements were approved by the Company's Board of Directors on June 13, 2011.

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

(a) Use of estimates:

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

(b) Use of judgment:

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

(i) Provision for claims:

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

(ii) Provision against accounts receivable for claims:

Global makes estimates on the recoverability of accounts 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 accounts receivable balances.

(iii) Lease classifications:

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

(iv) Obsolescence provision:

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

2. Basis of preparation (continued):

(b) Use of judgment (continued):

(v) Impairment tests:

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

(vi) Tax assets:

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

(vii) Stock options:

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

(viii) Depreciation rates and residual values:

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

3. Significant accounting policies:

(a) Basis of consolidation:

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

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

(b) Cash and equivalents:

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

(c) Short-term investments:

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

(d) Inventories:

CADRI's inventories of components and purchased parts for remanufacturing projects are valued at the lower of cost, on a weighted average basis, and net realizable value. Finished goods and work in process are valued at the lower of cost, including materials, labour and overhead, and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. Inventories of components and purchased parts for manufacturing for discontinued operations were valued at the lower of cost and net realizable value, on a first-in, first-out basis ("FIFO") at 1703558 Ontario Inc. ("Bach-Simpson") and G&B Specialties, Inc ("G&B").

3. Significant accounting policies (continued):

(e) Contracts in progress:

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

(f) Property, plant and equipment:

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

When significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and depreciated separately.

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

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

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

The estimated useful lives are as follows:

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

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

(g) Intangible assets:

(i) Goodwill:

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

In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under Canadian GAAP. The classification and accounting treatment of business combinations that occurred prior to January 1, 2010 has not been reconsidered in preparing the Company's opening IFRS balance sheet at January 1, 2010.

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

3. Significant accounting policies (continued):

(g) Intangible assets:

(ii) Other intangible assets:

Other 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 fair value. Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

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

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

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

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

(h) Impairments:

(i) Financial assets:

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

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

Losses are recognized in net earnings (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 net earnings (loss).

(ii) Non-financial assets:

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

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

3. Significant accounting policies (continued):

(h) Impairments (continued):

(ii) Non-financial assets (continued):

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

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

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

(i) Employee benefits:

(i) 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 are measured at fair value at the grant date and expensed over the vesting period; with a corresponding increase to contributed surplus. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met. Upon the exercise of the option, consideration received, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

(ii) Termination benefits:

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

(iii) Short-term employee benefits:

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

(j) Revenue recognition:

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

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

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

3. Significant accounting policies (continued):

(k) Income taxes:

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

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

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

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

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

(l) Earnings (loss) per share:

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

(m) Foreign currency:

Management has determined that the Canadian dollar is the functional currency of the parent company and all if its subsidiaries.

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

Prior to July 28, 2010, the Company had a foreign operation located in the United States with the U.S. dollar as its functional currency. Assets and liabilities of this foreign operation, including goodwill and fair market value adjustments arising on acquisition, are translated into Canadian dollars at the exchange rates in effect at the balance sheet dates and revenues and expenses are translated into Canadian dollars at average monthly exchange rates for the period. Foreign currency differences resulting from the translation of this foreign operation are recognized and presented in other comprehensive income and in accumulated other comprehensive income in equity. When a foreign operation is disposed of, the cumulative translation amount is reclassified from accumulated other comprehensive income to profit and loss as part of the profit or loss on disposal. As explained in note 14, the Company has elected to transfer the cumulative translation amount at January 1, 2010 as previously recognized under Canadian GAAP to retained earnings (deficit). Translation gains or losses subsequent to January 1, 2010 are included in accumulated other comprehensive income or loss in the Consolidated Interim Statements of Changes in Equity. On July 28, 2010, upon the sale of GBI USA Holdings, Inc. ("GBIH"), the outstanding balance of the cumulative translation adjustment loss related to GBIH included in accumulated other comprehensive (loss) income was recorded as part of the gain on sale included in net earnings from discontinued operations. As at March 31, 2011, the Company has no foreign operations.

3. Significant accounting policies (continued):

(n) Financial assets and financial liabilities:

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

Financial instruments are classified into one of the following five categories: financial assets or liabilities at fair value through profit and loss, held-to-maturity financial assets, loans and receivables, available-for-sale financial assets and other liabilities. All financial instruments, including derivatives, are measured on the balance sheets at fair value except for loans and receivables, held-to-maturity investments and other liabilities, which are measured at amortized cost. Subsequent measurement of changes in fair value depend on the initial classification, as follows: financial assets and liabilities at fair value through profit and loss are measured at fair value and changes in fair value are recognized in net earnings (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 net earnings (loss).

(i) Loans and receivables:

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

Cash and cash equivalents comprise cash balances and short-term interest bearing securities with original maturities of three months or less. Short-term investments are interest bearing securities, with original maturities of greater than three months but less than one year.

Accounts receivable and escrow receivables are recognized on the date that the receivables are 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.

(ii) Other liabilities:

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

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

(o) Derivative financial instruments:

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

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

3. Significant accounting policies (continued):

(p) Government assistance and investment tax credits:

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

(q) Provisions:

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

(i) Warranties:

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

(ii) Restructuring:

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

(ii) Environmental remediation:

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

(r) Lease payments:

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

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

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

(s) Finance income and finance costs:

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

3. Significant accounting policies (continued):

(t) Discontinued operations:

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

4. Discontinued operations:

The results of the discontinued operations comprising GBIH and it's subsidiary that was sold on July 28, 2010 and Bach-Simpson which was sold on August 10, 2010 are as follows:

	Three months 2011	2010
Sales	$ -	$ 7,680,460
Direct cost of sales, salaries and general and administrative expenses	-	5,944,493
Earnings before undernoted items	-	1,735,967
Depreciation	-	17,947
Finance costs	-	488,497
Foreign exchange loss	-	128,642
Earnings before income taxes	-	1,100,881
Income tax expense	-	389,533
Net earnings from discontinued operations	$ -	$ 711,348

As at March 31, 2011, there is $5,406,091 (December 31, 2011 - $7,821,000) of the combined sale price for GBIH and Bach-Simpson being held in escrow for potential indemnification claims. The escrow period extends for periods between six months and up to three years from the transaction closing dates, depending upon the nature of the indemnity, and circumstances. As of March 31, 2011, the Company has not been notified of any indemnification claims.

The Company's Interim Consolidated Statements of Cash Flows for the periods ended March 31 include the following information related to the discontinued operations of G&B and Bach-Simpson:

	Three months 2011	2010
Cash flows from operating activities:		
Net earnings	$ -	$ 711,348
Adjustments for:		
Income tax expense (recovery)	-	(26,994)
Depreciation of plant and equipment		116,673
Variation of depreciation included in inventories		24,535
Interest expense		178,250
Unrealized foreign exchange loss	-	63,080
Change in:		
Trade and other receivables	-	(1,411,224)
Inventories		(67,219)
Costs and estimated earnings on uncompleted contracts in excess of billings		(52,320)
Prepayments	-	(246,017)
Trade and other payables	-	1,800,452
Unrealized foreign currency translation loss	-	(277,761)
	-	812,805
Interest paid	-	(313,086)
Income taxes paid	-	(117,893)
Net cash from operating activities	-	381,826
Cash flows from investing activities:		
Acquisition of property, plant, and equipment	-	(41,606)
Net cash used in investing activities	-	(41,606)
Increase in cash and cash equivalents from discontinued operations	$ -	$ 340,220

5. Inventories:

During the quarter ended March 31, 2011, as part of continuing operations, the Company expensed $5,759,437 of inventory (March 31, 2010 - $6,106,291), including a net inventory provision of $63,121 (March 31, 2010 - $75,000) to write-down the value of inventory to net realizable value. There were no inventory write-down reversals during the quarter.

6. Provisions:

The following table presents the Company's provisions:

	Management restructuring *(1)*	Warranties *(2)*	Environmental remediation *(3)*	Total
Balance at January 1, 2010	$ 824,942	$ 374,894	$ 765,514	$ 1,965,350
Charges	285,000	346,564	118,655	750,219
Utilization	(824,942)	(197,529)	-	(1,022,471)
Balance at December 31, 2010	285,000	523,929	884,169	1,693,098
Less: short-term provisions	(285,000)	-	-	(285,000)
Long-term provisions	$ -	$ 523,929	$ 884,169	$ 1,408,098
Balance at January 1, 2011	285,000	523,929	884,169	1,693,098
Charges	-	58,693	34,262	92,955
Utilization	-	(171,439)	-	(171,439)
Balance at March 31, 2011	285,000	411,183	918,431	1,614,614
Less: short-term provisions	(285,000)	-	-	(285,000)
Long-term provisions	$ -	$ 411,183	$ 918,431	$ 1,329,614

(1) At the end of 2009, the restructuring of the management team was planned with the expected sale of the two subsidiaries, GBIH and Bach-Simpson. The Chairman, CEO, CFO and Chief Marketing officers resigned and the US office closed with the sale of the two subsidiaries. Management restructuring expenses totaling $824,942 was then paid to the resigned officers and $285,000 was accrued as severance costs payable to the President of CADRI. The US based officers were replaced by the President of CADRI (CEO) and the VP Finance of CADRI (CFO) to consolidate management in Canada. Amounts were not discounted as the management restructuring provisions are all short-term.

(2) The contract with the largest customer requires the Company to provide two years parts and labour warranty from date of final acceptance of a delivered locomotive as well as a one year warranty on repairs. Prior to July 1, 2010, the warranty reserve was established at 2% of recognized revenue. As more locomotives were delivered, cumulative warranty repair expenses incurred by the Company supported the reduction of the percentage to 1% of recognized revenue. The warranty provision was calculated with a discount rate of 15.5%.

(3) In connection with the acquisition of land and building in prior years, the Company identified an environmental contamination. Since it is probable that CADRI will sustain costs related to environmental assessment and remediation over the next five years, an environmental remediation provision in the amount of $765,514 has been recorded as at January 1, 2010. Accretion expenses of $118,655 for the year 2010 caused the environmental remediation provision to become $884,169 as of December 31, 2010. Further accretion expense of $34,262 for the first quarter of 2011 further increased the balance of the provision to $918,431. This provision amount has been calculated using a discount rate of 15.5% (December 31, 2010 - 15.5%).

7. Income taxes:

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

	2011	2010
Earnings (loss) from continuing operations before income taxes	$ 187,509	$ (788,509)
Expected income tax rate	28.4%	29.0%
Computed expected income tax expense (recovery)	$ 53,253	$ (228,668)
Difference resulting from:		
Non-deductible items	3,622	(7,107)
Rate differences on temporary differences	(55,526)	58,731
Other	(15,789)	(17,810)
Expense for income taxes (recovery)	$ (14,440)	$ (194,854)

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

8. Contingencies:

(a) The Company received $911,016 in prepayments from a 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 is not an integral element of another financial instrument and is therefore not within the scope of IAS 39. The guarantee expires on December 10th annually and is automatically renewable for an additional period of one year.

(b) The Company was the lowest bidder for a contract to refurbish passenger cars and signed a bid bond of $250,000 in late March, 2011 to secure their performance under the terms and conditions of the bid contract. The bid bond will expire in May, 2011 and will become a performance bond upon the signature of the final contract.

9. Economic dependence:

(a) For the three months ended March 31, 2011, revenue from the Company's largest locomotive customer totaled approximately $7,540,000, or 62% of the Company's total revenues from continuing operations for the period. For the three months ended March 31, 2010, revenue from the Company's largest locomotive customer totaled approximately $7,968,000, or 72% of the Company's total revenues from continuing operations.

(b) Accounts receivable from the Company's largest customer was approximately 52% of the total accounts receivable as at March 31, 2011 (December 31, 2010 - 55%).

10. Earnings (loss) per share:

The computation for basic and diluted common shares outstanding for the three month periods ended March 31 are as follows:

	2011	2010
Weighted average number of common shares outstanding:		
Basic	15,247,400	15,239,900
Effect of stock options	7,000	23,370
Diluted	15,254,400	15,263,270

Stock options to purchase 260,000 (March 31, 2010 - 1,014,442) common shares are excluded from the weighted average common shares in the calculation of diluted earnings (loss) per share as they are not dilutive.

11. Finance income and finance costs:

Net finance costs for the three month periods ended March 31 are as follows:

	2011	2010
Finance income:		
Interest income on short-term deposits	$ 52,959	$ -
Net change in fair value of financial assets at fair value through profit or loss	-	12,553
Net foreign exchange gains		110,348
	52,959	122,901
Finance costs:		
Interest expense on long-term debt	-	2,273
Interest expense, other	4,071	-
Accretion expense (environmental and warranty provisions)	34,262	29,664
Bank fees	6,359	134,140
Net foreign exchange losses	19,676	-
	64,368	166,077
Net finance costs recognized in net earnings	$ (11,409)	$ (43,176)

12. Related party transactions:

(a) During the three months ended March 31, 2011, CADRI paid approximately $72,000 for management services provided by a company owned by the Company's President and Chief Executive Officer (March 31, 2010 - $79,000).

(b) In the normal course of business, CADRI purchases inventory from a company owned by the Company's President and Chief Executive Officer. The amount of inventory purchased for the three months ended March 31, 2011 was approximately US $728,000 (2010 - US $733,000) and was made under the terms and conditions comparable to those of CADRI's other inventory purchases.

13. 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, by geographic segment:

2011	International	United States	Canada	Total
Sales for the three month period ended March 31	$ 34,347	$ 1,036,540	$ 11,108,688	$ 12,179,575
Property, plant and equipment at March 31	$ -	$ -	$ 8,828,771	$ 8,828,771

2010	International	United States	Canada	Total
Sales for the three month period ended March 31	$ 144,320	$ 1,455,311	$ 9,398,328	$ 10,997,959
Property, plant and equipment at December 31	$ -	$ -	$ 8,919,090	$ 8,919,090

14. **Explanation of transition to IFRS:**

As stated in note 2, these are the Company's first Consolidated Interim Financial Statements prepared in accordance with IFRSs.

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

In preparing its opening IFRS statement of financial position, comparative statement of comprehensive income's information for the three months ended March 31, 2010 and comparative financial statement information for the year ended December 31, 2010, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP (the Company's previous GAAP).

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

(a) Reconciliation of consolidated equity:

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

			January 1, 2010	
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets:				
Cash and cash equivalents		$ 2,005,824	$ -	$ 2,005,824
Trade and other receivables		8,497,527	-	8,497,527
Inventories		14,477,398	-	14,477,398
Costs and estimated earnings on uncompleted contracts in excess of billings		5,917,775	-	5,917,775
Prepaid expenses		1,014,439	-	1,014,439
Deferred tax assets	A	475,535	(475,535)	-
		32,388,498	(475,535)	31,912,963
Non-current assets:				
Property, plant and equipment		22,776,870	-	22,776,870
Intangible assets	J	552,250	8,980,029	9,532,279
Deferred tax assets	A	5,497,076	331,535	5,828,611
Goodwill	J	8,980,029	(8,980,029)	-
		37,806,225	331,535	38,137,760
Total assets		$ 70,194,723	$ (144,000)	$ 70,050,723
Liabilities and Equity				
Current liabilities:				
Operating loan		$ 6,720,000	$ -	$ 6,720,000
Current portion of long-term debt		17,201,750	-	17,201,750
Trade and other payables	B	9,287,389	(1,262,979)	8,024,410
Current portion of provisions	B	-	824,942	824,942
Current portion of customer deposits		2,497,360	-	2,497,360
Income taxes payable		1,870,353	-	1,870,353
Deferred tax liabilities	A	140,983	(140,983)	-
		37,717,835	(579,020)	37,138,815
Non-current liabilities:				
Provisions		-	1,140,408	1,140,408
Customer deposits		1,246,036	-	1,246,036
Environmental liability	B	1,237,964	(1,237,964)	-
Deferred tax liabilities	A	2,957,957	140,983	3,098,940
		5,441,957	43,427	5,485,384
Equity:				
Share capital		26,366,433	-	26,366,433
Contributed surplus	D	2,688,847	11,000	2,699,847
Accumulated other comprehensive income (loss)	C	(3,218,489)	3,218,489	-
Retained earnings (deficit)	F	1,198,140	(2,837,896)	(1,639,756)
		27,034,931	391,593	27,426,524
Total liabilities and equity		$ 70,194,723	$ (144,000)	$ 70,050,723

14. Explanation of transition to IFRS (continued):

(a) Reconciliation of consolidated equity (continued):

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

	Note	Canadian GAAP	March 31, 2010 Effect of transition to IFRS	IFRS
Assets				
Current assets:				
Cash and cash equivalents		$ 3,103,402	$ -	$ 3,103,402
Trade and other receivables		9,134,493	-	9,134,493
Inventories		14,464,721	-	14,464,721
Costs and estimated earnings on uncompleted contracts in excess of billings		3,509,475	-	3,509,475
Prepaid expenses		1,427,865	-	1,427,865
Deferred tax assets	A	529,305	(529,305)	-
		32,169,261	(529,305)	31,639,956
Non-current assets:				
Property, plant and equipment		22,393,670	-	22,393,670
Intangible assets	J	520,750	8,980,029	9,500,779
Deferred tax assets	A	5,721,404	385,305	6,106,709
Goodwill	J	8,980,029	(8,980,029)	-
		37,615,853	385,305	38,001,158
Total assets		$ 69,785,114	$ (144,000)	$ 69,641,114
Liabilities and Equity				
Current liabilities:				
Operating loan		$ 5,220,000	$ -	$ 5,220,000
Current portion of long-term debt		17,380,000	-	17,380,000
Trade and other payables	B	10,466,000	(1,307,638)	9,158,362
Current portion of provision	B	-	782,744	782,744
Current portion of customer deposits		2,830,756	-	2,830,756
Income taxes payable		2,120,643	-	2,120,643
Deferred tax liabilities	A	126,391	(126,391)	-
		38,143,790	(651,285)	37,492,505
Non-current liabilities:				
Provisions	B	-	1,247,175	1,247,175
Customer deposits		649,432	-	649,432
Environmental liability	B	1,237,964	(1,237,964)	-
Deferred tax liabilities	A	2,972,062	126,391	3,098,453
		4,859,458	135,602	4,995,060
Equity:				
Share capital		26,366,433	-	26,366,433
Contributed surplus	D	2,750,053	(37,750)	2,712,303
Accumulated other comprehensive income (loss)	C	(3,621,613)	3,218,489	(403,124)
Retained earnings (deficit)	F	1,286,993	(2,809,056)	(1,522,063)
		26,781,866	371,683	27,153,549
Total liabilities and equity		$ 69,785,114	$ (144,000)	$ 69,641,114

14. Explanation of transition to IFRS (continued):

(a) Reconciliation of consolidated equity (continued):

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

	Note	December 31, 2010 Canadian GAAP (1)	Effect of transition to IFRS	IFRS
Assets				
Current assets:				
Cash and cash equivalents		$ 5,357,742	$ -	$ 5,357,742
Short-term investments		6,267,780	-	6,267,780
Trade and other receivables		4,436,807	-	4,436,807
Escrow receivables		7,821,000	-	7,821,000
Inventories		6,364,754	-	6,364,754
Costs and estimated earnings on uncompleted contracts in excess of billings		5,353,997	-	5,353,997
Prepaid expenses		450,539	-	450,539
Deferred tax assets	A	417,199	(417,199)	-
		36,469,818	(417,199)	36,052,619
Non-current assets:				
Property, plant and equipment	E	18,296,598	(9,377,508)	8,919,090
Intangible assets	E	322,492	(322,492)	-
Deferred tax assets	A	3,541,860	2,911,803	6,453,663
		22,160,950	(6,788,197)	15,372,753
Total assets		$ 58,630,768	$ (7,205,396)	$ 51,425,372
Liabilities and Equity				
Current liabilities:				
Trade and other payables	B	$ 7,142,429	$ (882,596)	$ 6,259,833
Current portion of provisions	B	-	285,000	285,000
Current portion of customer deposits		1,217,475	-	1,217,475
Income taxes payable		156,312	-	156,312
Deferred tax liabilities	A	41,914	(41,914)	-
Total current liabilities		8,558,130	(639,510)	7,918,620
Non-current liabilities:				
Provisions	B	-	1,408,098	1,408,098
Customer deposits		283,016	-	283,016
Environmental liability	B	1,237,964	(1,237,964)	-
Deferred tax liabilities	A	1,497,839	41,914	1,539,753
		3,018,819	212,048	3,230,867
Equity:				
Share capital		26,374,781	-	26,374,781
Contributed surplus	D	2,825,322	(78,580)	2,746,742
Retained earnings (deficit)	F	17,853,716	(6,699,354)	11,154,362
		47,053,819	(6,777,934)	40,275,885
Total liabilities and equity		$ 58,630,768	$ (7,205,396)	$ 51,425,372

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

14. Explanation of transition to IFRS (continued):

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

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

	Note	Canadian GAAP	March 31, 2010 Effect of transition to IFRS	IFRS
Sales		$ 10,997,959	$ -	$ 10,997,959
Cost of goods sold	H,K	10,082,091	248,644	10,330,735
Depreciation of production property, plant and equipment	H	285,074	(285,074)	-
Gross Profit		630,794	36,430	667,224
Other operating expenses:				
Salaries		532,782	(532,782)	-
Administration expenses	H,K	969,321	252,113	1,221,434
Selling expenses	K	-	191,123	191,123
		1,502,103	(89,546)	1,412,557
Loss from operating activities		(871,309)	(53,116)	(745,333)
Other income (expense):				
Depreciation of non-production property, plant and equipment and intangible assets	H	(66,668)	66,668	-
Interest, net	I	232,002	(232,002)	-
Interest on long-term debt	I	(234,275)	234,275	-
Change in fair value of derivative instruments	I	12,553	(12,553)	-
Foreign exchange loss	I	110,348	(110,348)	-
Finance income	I	-	122,901	122,901
Finance costs	I	-	(166,077)	(166,077)
		53,960	(97,136)	(43,176)
Income (loss) from continuing operations before income taxes		(817,349)	28,840	(788,509)
Income tax expense (recovery) :				
Current		13,050	-	13,050
Deferred		(207,904)	-	(207,904)
		(194,854)	-	(194,854)
Net earnings (loss) from continuing operations		(622,495)	28,840	(593,655)
Earnings from discontinued operations, net of income taxes (note 4)		711,348	-	711,348
Net earnings		88,853	28,840	117,693
Other comprehensive loss, net of income taxes:				
Unrealized loss on translating financial statements of a self-sustaining foreign operation		(403,124)	-	(403,124)
Comprehensive income (loss)		$ (314,271)	$ 28,840	$ (285,431)

14. Explanation of transition to IFRS (continued):

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

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

		December 31, 2010		
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
Sales		$ 45,264,248	$ -	$ 45,264,248
Cost of goods sold	H,K	42,958,134	881,532	43,839,666
Depreciation of production property, plant and equipment	H	951,148	(951,148)	-
Gross profit		1,354,966	(69,616)	1,424,582
Other operating expenses:				
Salaries		2,200,652	(2,200,652)	-
Administration expenses	H,K	4,370,137	1,469,681	5,839,818
Selling expenses	K	-	730,639	730,639
Impairment of property, plant and equipment and intangible assets	E	-	9,700,000	9,700,000
		6,570,789	9,699,668	16,270,457
Loss from operating activities		(5,215,823)	(9,699,668)	(14,845,875)
Other income (expense):				
Depreciation of non-production property, plant and equipment and intangible assets	H	(280,966)	280,966	-
Interest, net	I	34,689	(34,689)	-
Change in fair value of derivative instruments	I	12,636	(12,636)	-
Foreign exchange gain (loss)	I	(34,113)	34,113	-
Finance income	I	-	79,951	79,951
Finance costs	I	-	(446,728)	(446,728)
		(267,754)	(99,023)	(366,777)
Loss from continuing operations before income taxes		(5,483,577)	(9,868,307)	(15,212,652)
Income tax expense (recovery) :				
Current		347,771	-	347,771
Deferred	A	(1,566,244)	(2,638,604)	(4,204,848)
		(1,218,473)	(2,638,604)	(3,857,077)
Loss from continuing operations		(4,265,104)	(7,254,947)	(11,355,575)
Earnings from discontinued operations, net of income taxes	C	20,920,680	3,218,489	24,139,169
Net earnings (loss)		16,655,576	(4,036,458)	12,783,594
Other comprehensive loss, net of income taxes:				
Unrealized loss on translating financial statements of a self-sustaining foreign operation		(177,032)	-	(177,032)
Comprehensive income (loss)		$ 16,478,544	$ (4,036,458)	$ 12,606,562

14. Explanation of transition to IFRSs (continued):

(c) Principal exemptions elected on transition to IFRS:

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

(i) Business combinations:

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

(ii) Cumulative translation differences:

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

(iii) Share-based payments:

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

(d) Notes to the reconciliations:

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

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

B The Company had previously recorded an environmental remediation provision and warranty provision under Canadian GAAP as discounted using a risk free rate. Under IFRS, the Company restated the provision using a discount rate specific to the risk of the provision of 15.5% and reclassified the balance as part of Provisions on the Consolidated Interim Statement of Financial Position. This resulted in a reduction of the provisions and a decrease of $535,593 in the retained earnings (deficit) at the transition date of January 1, 2010. As a result of the change in discount rates used in measuring the provisions at the date of transition, there is an increase in accretion expense, which is included in finance costs in the Consolidated Interim Statement of Comprehensive Income (Loss), of $29,664 and $118,655 respectively for the three month period ended March 31, 2010 and the year ended December 31, 2010.

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

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

D Under IFRS 1, the Company had to recalculate the stock-based compensation using graded vesting for all unvested options that existed at the transition date to IFRS on January 1, 2010. This resulted in a transition adjustment of $11,000 under IFRS, which contributed to an increase of contributed surplus and an increase in retained deficit. This change from the straight-line method under Canadian GAAP resulted in a decrease of stock based compensation in the amount of $48,750 for the three months ended March 31, 2010 and of $89,950 for the year ended December 31, 2010.

14. Explanation of transition to IFRSs (continued):

(d) Notes to the reconciliations (continued):

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

Intangible assets	$	322,492
Land and building		4,111,156
Machinery & equipment		5,266,352
	$	9,700,000

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

		January 1, 2010		March 31, 2010		December 31, 2010
Reduction of environmental remediation provision (note B)	$	472,450	$	472,450	$	472,450
Tax impact of reduction of environmental remediation provision (note B)		(127,000)		(127,000)		(95,000)
Reduction of warranty expense due to discounting (note B)		63,143		63,143		63,143
Tax impact of reduction of warranty expense due to discounting (note C)		(17,000)		(17,000)		(20,000)
Elimination of OCI balance as of January 1, 2010 (note C)		(3,218,489)		(3,218,489)		-
Accretion expense (notes B)		-		(19,910)		(108,131)
Adjustment for unvested options as of January 1, 2010 (note D)		(11,000)		(11,000)		(11,000)
Decrease of stock based compensation expense (note D)		-		48,750		89,580
Impairment of property, plant and equipment and intangibles (note E)		-		-		(9,700,000)
Income tax recovery increase due to impairment (note A)		-		-		2,609,604
Total adjustments	$	(2,837,896)	$	(2,809,056)	$	(6,699,354)

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

		March 31, 2010		December 31, 2010
Salaries are now part of administration and selling expenses	$	532,782	$	2,200,652
Decrease of stock compensation expense (note D)		(48,750)		(89,580)
Depreciation of non-production property, plant and equipment (note H)		66,668		280,966
Bank fees are now part of finance costs (note I)		(134,140)		(261,334)
Selling expenses (note K)		(164,447)		(661,023)
Total adjustments	$	252,113	$	1,469,681

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

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

Interest expense, bank fees, and foreign exchange losses are classified as finance costs under IFRS. Moreover, accretion expense related to the environmental remediation provision and the warranty provision is also considered finance cost under IFRS (note B). Details related to the finance income and finance costs for March 31, 2010 and March 31, 2011, respectively are disclosed in note 11.

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

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

(e) Reconciliation of consolidated cash flows:

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