



## **GLOBAL RAILWAY INDUSTRIES LTD.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **FOR THE THREE MONTHS ENDED MARCH 31, 2011**

Global Railway Industries Ltd's (the "Company" or "Global") is parent company of CAD Railway Industries Ltd. ("CADRI"), which provides sales and services, including parts, maintenance and remanufacture of freight and passenger cars, locomotives and other locomotive components, to the domestic and international railway industries. Additionally, CADRI remanufactures diesel engines for the locomotive and marine industries. The Company's shares trade on the Toronto Stock Exchange under the symbol GBI.

The following is Management's Discussion and Analysis ("MD&A") of Global's consolidated interim financial statements for the three month period ended March 31, 2011. This MD&A has been prepared as of June 13, 2011. Except where otherwise indicated, all financial information is expressed in Canadian dollars. This discussion is intended to assist the reader in understanding the dynamics of the Company's business and the key factors underlying its financial results. This analysis should be read in conjunction with the Company's annual consolidated financial statements, together with the Management's Discussion and Analysis thereof, which are available on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information regarding Global is contained in its Annual Information Form ("AIF"), also available on SEDAR.

This document contains forward-looking statements, which are qualified by reference to, and should be read together with the "Forward-Looking Statements" cautionary notice, which can be found on page 30 of this MD&A.

#### **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

Management prepared the financial statements for the Company and is responsible for the integrity and fairness of the data presented therein. The accounting policies followed in the preparation of the financial statements conform to International Financial Reporting Standards ("IFRS"). Where IFRS provided alternative accounting methods, Management chose those it deemed most appropriate in the circumstances. This MD&A has been prepared in accordance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligations - of the Canadian Securities Administrators.

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of the Company are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal controls over financial reporting. The Board of Directors, which is comprised of independent directors, acts to ensure that Management fulfills its financial reporting and internal control responsibilities. In performing its duties, the Board of Directors acts only in an oversight capacity and necessarily relies on the work and assurances of the Company's Management. With reliance on reviews and discussions with Management and in light of its roles and responsibilities, the Board of

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Directors has approved the Company's first quarter consolidated interim financial statements.

#### Performance Data

The following represents data for the unaudited three months ended March 31.

| <i>(unaudited)</i>                                      | Three months  |                | %      |
|---|---------------|----------------|--------|
|   | 2011          | 2010           | Change |
| Sales from continuing operations                        | \$ 12,179,575 | \$ 10,997,959  | 10.7%  |
| Net earnings (loss) from continuing operations          | \$ 201,949    | \$ (593,655)   |        |
| Net earnings  | \$ 201,949    | \$ 117,693     | 71.6%  |
| Earnings (loss) per share from continuing operations    |               |                |        |
| Basic   | \$ 0.01       | \$ (0.04)      |        |
| Diluted   | \$ 0.01       | \$ (0.04)      |        |
| Net earnings per share                                  |               |                |        |
| Basic   | \$ 0.01       | \$ 0.01        |        |
| Diluted   | \$ 0.01       | \$ 0.01        |        |
| Weighted average number<br>of common shares outstanding |               |                |        |
| Basic   | 15,247,400    | 15,239,900     |        |
| Diluted   | 15,254,400    | 15,263,270     |        |
| Total Assets  | \$ 49,240,025 | \$ 69,641,114  |        |
| Total Long-Term Liabilities                             | \$ 1,489,854  | \$ 4,995,060 * |        |

\* Excludes 15,070,000 of long-term debt that was classified as a current liability as at March 31, 2010

#### Strategy

In May 2009, the Board of Directors established a Special Committee to conduct a strategic review of all available options to maximize the shareholders' value for Global. The options included the sale of the Company in whole or in parts. The mandate of the Special Committee was expanded in the third quarter of 2009 to address issues related to the Company's liquidity and possible financing alternatives as they were closely interrelated with the strategic review process underway. During the third quarter of 2010, GBI USA Holdings, Inc. ("GBIH"), parent company of G&B Specialties, Inc. ("G&B"), and the assets of Bach-Simpson Corporation ("Bach-Simpson") were sold to Wabtec Corporation ("Wabtec") (NYSE: WAB).

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During the fourth quarter of 2010, the Company's Special Committee was merged with the Board of Directors and is continuing to consider strategic alternatives for the Company and its remaining operating business, CADRI.

#### **Significant Events in the First Quarter of 2011**

During the first quarter of 2011, CADRI successfully delivered three locomotives to VIA Rail Canada ("VIA"), in accordance with the agreed upon delivery schedule. These 2011 deliveries are in addition to the fifteen locomotives delivered during 2010 and eight delivered during 2009. CADRI has now delivered a total of 26 of the 53 locomotives to be remanufactured under the VIA contract. A total of 23 locomotives have received Final Acceptance and three additional locomotives have received Provisional Acceptance from VIA as at March 31, 2011. Additionally, during the quarter CADRI repaid \$0.6 million of customer deposits.

Further to the net earnings of \$202,000 for the first quarter of 2011, the Company managed to generate positive consolidated cash flow from operating, investing and financial activities, in the amount of \$1.0 million. Additional discussion about this favorable result can be found below in the Liquidity and Capital Resources section of this MD&A.

As at March 31, 2011 the Company maintained consolidated cash, short term investments and escrow receivables of \$18 million versus \$3.1 million as at March 31, 2010. This compares to \$19.4 million as at December 31, 2010. The decrease in cash and short term investments from fourth quarter 2010 is due to the timing of billing specifically related to the VIA contract i.e. costs and estimated earnings on uncompleted contracts increased more than billings, repayment of \$0.6 million of customer deposits as well as fixed corporate head office costs.

CADRI has bid on a major contract for the refurbishment of transit cars. At the public tender opening for the major transit refurbishment contract, March 29th, CADRI was verbally informed with the other two bidders that it submitted the lowest bid. However, the transit customer has advised the three bidders that they will review the financial figures of the three proposals and make a recommendation to their Board. Even if CADRI meets the bid requirements, there can be no assurance that CADRI will ultimately be selected to provide the refurbishment services or that CADRI will be able to agree on terms of a definitive agreement.

In view of the experience CADRI gained while executing the VIA project, where contractual requirements for this large scale project were met, the company remains well positioned to bid for other major refurbishment contracts.

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Global has transitioned to IFRS reporting during the current quarter and direct comparison to Canadian GAAP may make it more difficult to compare the current quarter's results to prior reporting periods. Specific differences between IFRS and GAAP include changes to share based compensation, IFRS impairment and depreciation. See also – Changes in accounting policies.

Please see Note 14 to our First Quarter 2011 Unaudited Consolidated Interim Statements for a summary of the differences between our financial statements prepared under Canadian GAAP and to those under IFRS for the three months ended March 31, 2010 and for the year ended December 31, 2010

#### **Sales**

Through its operating subsidiary, CADRI, the Company generates revenue primarily from the remanufacture of locomotives, the repair of rail cars, the sale of rail car parts, and the remanufacture of diesel engines including both locomotive and marine engines – the Locomotive segment.

Total Company sales, for the three month period ended March 31, 2011 were \$12.2 million, representing an increase of 10.7% compared with the same quarter of 2010.

Currently more than 62% (2010 - 72%) of Company's revenues are generated from transit customers. Total sales originate predominantly in the United States and Canada, with less than 1% (2010 - 2%) of revenue generated from sales in other countries during the first quarter 2011. A majority of accounts receivables with other countries are insured under export insurance provided by Export Development Canada.

Although the Company conducts its business and reports its earnings in Canadian dollars, a portion of revenues and expenses are denominated in US dollars. As such, the Company's results are affected by exchange rate fluctuations. The average CDN\$/US\$ exchange rate for the three month period ended March 31, 2011 was 0.99 compared to 1.04 the same quarter of 2010. The effect of the fluctuating value of the Canadian dollar against the United States dollar unfavorably impacted the Company's 2011 first quarter sales growth. Had the exchange rate remained constant year over year, 2011 first quarter year-over-year sales would have grown approximately by an additional \$135,000 or 1.1%.

Fluctuations in the value of the Canadian dollar against the United States dollar affect the Company's results when the United States dollar denominated sales and expenses are translated into Canadian dollars. A strengthening United States dollar has the effect of increasing the Canadian dollar equivalent of the Company's United States dollar denominated sales and expenses. It also increases overall net income because there are more sales than expenses denominated in United States dollars. During the first quarter of 2011, approximately 20.9% of the Company's sales were transacted in United States

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dollars. During the comparable 2010 quarter, approximately 43.0% of the Company's sales were transacted in United States dollars. The 2011 first quarter percentage of United States dollar denominated sales were lower than 2010 due primarily to a sizable increase in CADRI's Canadian dollar denominated sales originating outside from the VIA contract.

#### **Gross Margins**

First quarter 2011 gross margin was 12.6% compared with 6.1% for the same period in 2010, a net increase of 6.5%.

During the first quarter improvements were recorded through increased volume, operational improvements and continued resolution of technical issues encountered during prior quarters. CADRI is continuing to make cost recovery claims to its vendors for the unanticipated additional production labor hours required during the third and fourth quarter of 2010 to resolve product quality issues. Additionally, CADRI Management has implemented a series of measures directed at reducing the VIA contract bill of materials input costs, increasing labor productivity, decreasing consumables and improving the final delivery acceptance process, all in an effort to improve margins, profitability and cash flow.

During the three months ended March 31, 2011, the Company recorded the benefit of SRED claims in the amount of \$16,000. The value of future SRED claims fluctuates depending on the SRED activities undertaken in any given period. As a result of a CRA audit, CADRI Management has re-evaluated the eligibility of its 2011 SRED projects and has taken a more conservative approach with respect to accruing potential refund claims. The Company's SRED claims are subject to regular review and acceptance by both Federal and Provincial income tax authorities.

#### **Depreciation**

During the first quarter of 2011, depreciation expense decreased \$164,000 over the comparable 2010 period as a result of a lower net book value of the Company's property, plant and equipment and intangible assets due to a \$9.7 million impairment charge recorded under IFRS for the year ended December 31, 2010.

#### **Impairment**

No impairment has been accounted for during the quarter as there were no further indicators that would require any assets be tested for impairment. Goodwill as well as all intangible assets relating to continuing operations have previously been fully written off.

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#### **Other Operating Expenses**

Administrative and selling expenses for the three months ended March 31, 2011 were 11.0% of sales, compared with 12.8% for the same period in 2010 as the Company continued to reduce costs. Salary expenses for the first quarter of 2011 were \$143,000 less than for the same period in 2010 due to continued cost saving initiatives including the closure of Global's US office and reduction of headcount.

#### **Finance Income/costs**

During the three month period ended March 31, 2011, net finance costs were \$11,000 or \$32,000 less than comparable period in 2010, due to reduced interest costs following repayment of borrowings and interest earned on cash deposits, short term cash investments as well as an escrow interest receivable. Finance costs reduced by \$102,000 in the first quarter of 2011 versus 2010 related to renegotiation and extension fees that were paid for the term and operating facilities during the first quarter of 2010.

#### **Foreign Exchange**

The Company recorded a foreign exchange loss of \$20,000 during the first quarter of 2011, compared with a foreign exchange gain of \$110,000 during the same period in 2010. This is due in large part to a foreign exchange loss on a US denominated escrow receivable as well as the end of foreign exchange activity arising from intercompany transactions, following the sale of GBIH to Wabtec.

#### **Net Earnings (Loss)**

Net earnings from continuing operations for the first quarter of 2011 was \$202,000 compared to a net loss from continuing operations of \$594,000 for the same period in 2010. Net earnings for the first quarter of 2011 was \$202,000 compared to net earnings of \$118,000 for the same period in 2010. Comprehensive income for the quarter was \$202,000 compared to a \$285,000 loss in the same period of 2010 due to an unrealized loss of \$403,000 in Q1 2010 on translating the financial statements of a self-sustaining foreign operation.

#### **Outlook**

Along with other industries in Canada and the United States, railroads have suffered during the recent economic downturn. Freight traffic is a "derived demand" industry; and the demand for the rail service is linked to the demand for the products that the railroads haul. Rail traffic, therefore, acts as a solid barometer of the overall health of the economy.

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The Bank of Canada's April Monetary Policy Report (MRP) announced the "global economic recovery is becoming more firmly entrenched and is expected to continue at a steady pace." Overall, economic activity in Canada has been stronger than the Bank anticipated. Furthermore, the MRP said "growth is solidifying," in the U.S., "although consolidation of household and ultimately government balance sheets will limit the pace of expansion". MRP continued that, "Global financial conditions have remained very simulative, and investors have become noticeably less risk averse, despite the significant challenges that weigh on the global economic outlook."

Rail volume growth continues to outpace Gross Domestic Product (GDP) growth, driven by strong intermodal demand and economic recovery. During Q1 2011 railcar owners withdrew almost 23,000 cars of various types out of storage, shrinking the idled fleet to 18.7%. U.S. intermodal volume advanced 12.4% for the week ending April 9, 2011 measured against the comparable week in 2010, said the Association of American Railroads, with U.S. carload freight traffic rising 1.8% over the comparable period. A number of factors lead to increased freight volume in the United States including rising fuel costs leading to an increased demand for rail, since railroads are on an average four times more fuel-efficient than trucks. Additionally, a surge in imports to the United States and record United States agricultural exports boosted rail shipments to and from ports; a rise in natural gas prices caused power plants to burn more coal to generate electricity leading to increased rail traffic as most coal is shipped by rail, and lastly railroads have made investments in capacity and used technology to innovate and provide service improvements and enhanced reliability.

With the continuing growth in the 2011 economy year to date, the finances of the railroad industry are also on the mend. The overall sentiment, based on latest available weekly data and positive comments from railroad executives, is that the business is clearly improving. Major railroads have announced hiring plans as business increases.

Management anticipates that railroads will commence expanding their networks by adding more network capacity as the economy continues to recover, shippers continue to migrate their products from trucks to rail, and as commuters increasingly rely on rail transit systems in response to government incentives, rising gas prices and traffic congestion. Railroads continue to maintain tight control over expenditures to deal with reduced freight volumes/revenues and market softness in the near-term. However, in the mid-term, railroads will continue to seek solutions to decrease fuel consumption and increase core network efficiencies.

The business volumes continue to grow steadily due to a pick-up in end market demand. Moreover, structural cost cuts during the downturn are forecasted to help railroads generate higher margins with leaner business models in the future.

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#### Financial Results ('000's)

|  | Q1 '11    | Q4 '10     | Q3 '10     | Q2 '10    | Q1 '10    | Q4 '09     | Q3 '09     | Q2 '09     |
|--|-----------|------------|------------|-----------|-----------|------------|------------|------------|
| Sales from continuing operations                     | \$ 12,180 | \$ 12,201  | \$ 10,139  | \$ 11,927 | \$ 10,998 | \$ 10,794  | \$ 9,454   | \$ 9,011   |
| Net earnings (loss) from continuing operations       | \$ 202    | \$ (1,818) | \$ (1,511) | \$ (353)  | \$ (594)  | \$ (4,278) | \$ (1,511) | \$ (2,077) |
| Net earnings (loss)                                  | \$ 202    | \$ (1,976) | \$ 18,045  | \$ 498    | \$ 118    | \$ (3,879) | \$ (532)   | \$ (875)   |
| Earnings (loss) per share from continuing operations |           |            |            |           |           |            |            |            |
| Basic  | \$ 0.01   | \$ (0.12)  | \$ (0.10)  | \$ (0.02) | \$ (0.04) | \$ (0.28)  | \$ (0.10)  | \$ (0.14)  |
| Diluted  | \$ 0.01   | \$ (0.12)  | \$ (0.10)  | \$ 0.03   | \$ (0.04) | \$ (0.28)  | \$ (0.11)  | \$ (0.14)  |
| Net earnings (loss) per share                        |           |            |            |           |           |            |            |            |
| Basic  | \$ 0.01   | \$ (0.13)  | \$ 1.18    | \$ 0.03   | \$ 0.01   | \$ (0.25)  | \$ (0.03)  | \$ (0.06)  |
| Diluted  | \$ 0.01   | \$ (0.13)  | \$ 1.18    | \$ 0.03   | \$ 0.01   | \$ (0.25)  | \$ (0.03)  | \$ (0.06)  |

Note: 2010 and 2009 results have been restated to reflect impact of reclassification adjustments between continuing and discontinued operations in order to refine split between continuing and discontinued operations. Q1 2011 and Q1 2010 are presented under IFRS. All other quarters are presented under Canadian GAAP.

#### Liquidity and Capital Resources

On September 24, 2010 the Company negotiated a new Credit Agreement, with one of its existing Lenders and established a \$1.2 million 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. Loan documentation for the new facility includes a Credit Agreement, subsidiary guarantees and a cash collateral pledge in the amount of \$1.3 million. Interest rates for loans and overdrafts are Canadian bank prime rate plus 0.25%.

As at March 31, 2011, cash and short-term investments on hand was \$12.6 million compared to \$11.6 million as at December 31, 2010 and \$3.1 million at March 31, 2010. Additionally, \$5.4 million of escrow funds receivable were outstanding as at March 31, 2011 for total cash, short term investments, and escrow receivables of \$18 million.

During the first quarter of 2011, the Company had a net cash inflow of \$1.1 million from its operating activities compared to an inflow of \$3 million in the same period in 2010. Cash used in operating activities, before changes in non cash working capital, interest paid and income taxes refunded (paid) was approximately \$332,000 compared to - \$381,000 used in the first quarter of 2010.



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The Company generated consolidated cash flow from operating, investing and financial activities, in the amount of \$1.0 million during the first quarter of 2011, from the receipt of \$2.4 million of escrow receivables, versus \$0.8 million in the same period in 2010. The net increase of \$0.2 million is as a result of the improvement in net earnings from continuing operations and receipt of escrow receivables.

The 2011 first quarter cash from operating activities improved given increase in net earnings from 2010. Net increase in cash flow, excluding escrow receivables were financed from reductions to inventory. During the first quarter of 2011 approximately \$0.6 million in cash was utilized for the scheduled repayment of customer deposits versus \$0.3 million of customer deposits received during the comparable period. The significant improvement in the Company's 2011 year-to-date net cash flow compared to the same period in 2010, excluding customer deposits and escrow receivables is related to a reduction of operating losses at CADRI after changes in working capital items.

As at March 31 2011, the total drawn on the new credit facilities was \$1 million and drawn exclusively for the VIA financial guarantee. The undrawn portion of the Company's available credit facilities, as at March 31 2011, was \$0.2 million under the new financing arrangement.

As at March 31, 2011 the Company did not have any off-balance sheet financial arrangements.

#### **Capital Expenditures**

Management continues to approve only core capital expenditures with rapid payback periods or safety related projects. During the first quarter of 2011, CADRI continued to deploy the new accounting system. CADRI deployed the new accounting software to one of two inventory databases, to manage purchases, inventory receipts and sales orders for the engine and services divisions. The new system enables Management to more proactively address various system and control weaknesses; improve the tracking of inventory movements; improve alignment of corporate strategies and operations; reduce risk; improve productivity and enhance insight into daily activities as well as improve financial management and reporting processes.

For the three months ended March 31, 2011, the Company's capital expenditures totaled \$16,000 primarily computer software.

As at March 31, 2011, the Company had no outstanding commitments for additional capital expenditures.

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#### Contractual Obligations

As at March 31, 2011, the Company has the following lease commitments at CADRI:

|                   | 2011      | 2012      | 2013      | 2014      | Thereafter |
|-------------------|-----------|-----------|-----------|-----------|------------|
| Lease commitments | \$ 57,750 | \$ 58,000 | \$ 58,000 | \$ 43,000 | \$ 24,000  |

The Company has entered into fixed price purchase contracts with remaining commitments amounting to approximately \$12.5 million, primarily to acquire materials required to complete the VIA contract. These purchase contracts generally contain clauses that allow the Company to renegotiate the purchase commitments if the VIA contract is materially changed or cancelled. Included in the above are purchase contracts totaling \$2.8 million with a company owned by the President and Chief Executive Officer of Global – see Related Party Transactions.

In December 2007, CADRI was awarded a \$101.5 million contract that has since been increased to \$113.3 million, to remanufacture VIA Rail Canada's fleet of 53 F40 locomotives and additional work over a five year period. This contract award positioned the Company as the largest re-manufacturer of locomotives in Canada and as a major competitor in North America. The VIA fleet renewal program will see the full remanufacturing of their F40 locomotives, including several technological upgrades, and is expected to be completed by the end of 2012. The contract has a progress billing structure – with a 10% holdback on provisional acceptance of the remanufactured unit, which reduces to a 5% holdback until final acceptance of the unit. CADRI must provide annual performance guarantees equal to the greater of; i) \$15.0 million or, ii) 50% of VIA's annual spending under this contract. The requirement to provide annual performance guarantees terminates when the warranty applicable to the last delivered production unit expires. CADRI is required to indemnify VIA for all claims, damages, late deliveries and liabilities. VIA can cancel the contract for non-performance or CADRI bankruptcy. VIA can terminate the contract at any time; a standard clause in government contracts. The ownership of any new processes, patents, etc., developed by CADRI while performing VIA services accrues to VIA. The contract calls for a two year parts and labor warranty on refurbished units and a one year warranty on repairs.

Under the VIA contract, there are penalty provisions for late delivery. Delivery delays were experienced during the initial stages of the contract, and a revised delivery schedule was negotiated with VIA, which for the most part, is being adhered to. To date, in informal meetings, VIA has indicated that they do not plan to impose late delivery penalties on CADRI, they are not in the business of charging penalties and have indicated if the last locomotive is delivered according to the original schedule, no penalties would be applicable. VIA has also proposed an amendment to the agreement to this effect, however, this does not represent a contractual amendment to date and there cannot be any assurance that no penalties will be charged. Additionally, CADRI is

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no longer behind on the original delivery schedule. Accordingly, no amounts have been accrued in the March 31, 2011 consolidated financial statements for such penalties.

The Company maintains a customer deposit liability on its consolidated balance sheet in the amount of approximately \$911,000 of which \$703,000 is current and represents advance payments received in respect of the remanufacture of VIA locomotives. During the first quarter 2011 the Company repaid \$0.6 million of the amounts owing as customer deposits. The entire balance will be drawn down by the end of 2012. The Company has secured the prepayments with a \$1.0 million discloseable financial guarantee issued by a Canadian Bank, which is renewable annually.

#### **Share Capital**

At March 31, 2011, the Company had 15,247,400 common shares outstanding which represents an additional 7,500 common shares compared to March 31, 2010. During the three month period ended March 31, 2011, no stock options were exercised, no options expired or were cancelled, and no additional options were granted in accordance with the Company's Stock Option Plan. If all of the outstanding options were exercised, the Company would have 15,524,900 shares outstanding.

#### **Related Party Transactions**

During the first quarter of 2011, the Company paid \$72,000 for management services provided by a company owned by the President and CEO of Global, compared with \$79,000 paid during the same period in 2010. In the normal course of business, CADRI purchased approximately US\$728,000 of inventory from a company owned by the President and CEO of Global during the three months ended March 31, 2011, compared with US\$733,000 during the same period of 2010. These inventory purchases were made under normal commercial terms and conditions comparable to those of CADRI's other suppliers, and will be ongoing to the end of the VIA project. As at March 31, 2011, the Company has committed to future purchases amounting to approximately \$2.8 million from a company owned by the President and CEO of Global.

#### **Environmental Remediation Liability**

In June of 2008, CADRI exercised an option to purchase the land and building it had previously been leasing. In connection with the acquisition of the land and building, the Company identified 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 was 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

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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%).

#### **Business Risks**

The Company's primary business risks are listed below:

##### Key Personnel

The Company's senior management team is comprised of its President and Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). The success of the Company and its business strategy depends, to a degree, upon the skill and efforts of its senior management team and upon its ability to attract and retain qualified personnel. The unanticipated loss of the services of one or all members of the senior management team could have a material adverse effect on the Company's business, financial condition, results of operations or implementation of the Strategic Review recommendations. It could be difficult to replace the Company's senior management without adversely impacting the Company's operations. The Company does not maintain "key man" insurance for any of its senior management team. Additionally, the Company has an employment and non-competition agreement in place with the CEO.

##### Multi-Year Contracts

CADRI has entered into a multi-year contract for the remanufacture of 53 VIA F40 locomotives. Multi-year contracts are complicated and create additional contract related risks for the Company. Under the multi-year contract, the Company is required to meet specific obligations throughout the course of the contract. Failure to meet these obligations subjects the Company to financial penalties. Financial risk can also result if the Company is unable to effectively manage production and material costs during the term of the contract. Management is continuously improving the Company's cost control measures to minimize the risk of unplanned production costs. Certain long-term contracts with government controlled entities, such as VIA; provide such entities with the right to terminate without cause. Such termination could result in significant negative impact to the Company, notwithstanding that Global has taken steps to mitigate the impact through its contracts with suppliers.

##### Performance Bonds

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

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and generally do not exceed one year. There is a risk that the bonding companies may choose not to renew the performance bonds.

#### Competition

The Company is subject to competition from companies with a broader range of products, greater financial resources and larger marketing capabilities. There can be no assurance the Company will be able to continue to compete successfully with existing competitors or with new competitors. Management is aware of the competitors in its market and sees minimal new threats to the current customer base. While the Company's customers are cost conscious and have access to competitive products and services, Management's continued focus on safety, lean manufacturing, product quality and superior customer service has enabled the Company to successfully retain and grow its customer base.

#### Dependence upon Customers

Demand for the Company's products depends primarily on the level of spending by the North American Class 1 freight railroads, passenger railroads and commuter systems. Success is directly related to the strength of the Company's relationships with, and the economic success of, a small number of its larger customers. Should the Company's relationships with any of its major customers become strained, or the profitability of those customers becomes negatively affected, profitability may be impacted. On the other hand, passenger railroads and commuter systems are favorably impacted by the current market conditions because of increased government investment in rail passenger transit.

Revenue from the company's largest locomotive customer was approximately 62% of the Company's first quarter 2011 revenues. This compares to approximately 72% for the Company's first quarter 2010 revenues. CADRI is scheduled to deliver the last locomotive to the company's largest locomotive customer under the refurbishment contract Q4 2012.

Accounts receivable from the Company's largest customer were approximately 52% of accounts receivable as at March 31, 2011 versus 55% of accounts receivable as at March 31, 2010.

#### Product Supply

The Company has been, and may continue to remain, reliant upon third party contractors to provide products and services. The Company is therefore exposed to risks associated with the skills, abilities, timeliness, and quality assurance standards utilized by these third parties. In the event that unsatisfactory services are rendered, the recourse available to the Company may be limited. CADRI enters into contracts for the

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purchase of materials with selected suppliers to ensure a stable supply of raw materials. Management is not aware of any events that could result in material supply deficiencies in the near future.

#### Proprietary Rights

The Company has limited registered proprietary rights pertaining to its products. The ability to protect its services or operations from replication by third parties is therefore limited.

#### Insurance

A defect in the products manufactured by the Company could result in serious personal injury or property damage. Although the Company carries a limited amount of liability insurance, it is not fully insured against such risks, nor are all such risks fully insurable.

#### Warranty Returns

Consistent with industry practice, the Company allows customers to return products for warranty repair or replacement. Although the Company provides allowances for anticipated returns, and believes that its policies have resulted in the establishment of allowances that are adequate, there is no assurance that such product returns will not exceed such allowances in the future, and as a result, may have a material adverse effect on future operating results. Should any of the distributed products prove to be defective, the Company may be required to refund the price of or replace those specific products or all such products previously distributed. Replacement or recall of such products may cause significant expense and adversely affect the reputation of the Company and its products.

#### Limited Financial Resources

The financial resources of the Company are more limited compared to its competitors. The Company's ability to fully exploit available opportunities may be dependent upon its ability to obtain additional financing either by debt, equity or other means. There is no guarantee that additional funding would be available although the Company currently has significant available liquidity following the sale of subsidiaries. Given the existing conditions of the banking and credit markets, the Company's future plans regarding new bids for large contracts may be at risk as most of these contracts require large initial investments in working capital.

#### Fluctuating Exchange Rates

A portion of the Company's revenues and expenses are transacted in U.S. dollars and are subject to exchange rate fluctuations. Exchange rates are determined by market

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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factors beyond the control of the Company and may vary substantially and have a material adverse impact on the financial results of operations.

#### Implementation of new accounting system at CADRI

The implementation of a new accounting system at CADRI commenced during the quarter ended June 30, 2010. The modules deployed include general ledger, accounts receivable and accounts payable. On February 1, 2011, CADRI further deployed the new accounting software to manage purchases, inventory receipts and sales orders for the engine and services divisions. The new system enables Management to more proactively address various system and control weaknesses; improve alignment of corporate strategies and operations; reduce risk; improve productivity and insight into daily activities as well as improve financial management and reporting processes. The Company will continue with the implementation of a fully integrated accounting and ERP system. The project team has been mobilized; recommendations and schedule are being developed to implement the ERP within 18 months.

#### Liquidity of Small Cap Stocks

The current economic uncertainty and financial market volatility make it challenging at times for investors to liquidate their investment in small cap companies. Generally, Global investors trade a minimal number of shares daily representing less than 2% of the total shares outstanding.

#### **Critical Accounting Policies and Estimates**

The Company's audited consolidated financial statements for the years ended December 31, 2010 and 2009 were prepared in accordance with Canadian generally accepted accounting principles prior to the adoption of International Financial Reporting Standards ("IFRS"). On January 1, 2011, Global adopted IFRS. The adoption date of January 1, 2011 requires the restatement of the Company's consolidated financial statements for comparative purposes for its quarterly and year ended December 31, 2010 financial statements and the opening balance sheet as at January 1, 2010. Global's Consolidated Interim financial statements for the three month period ended March 31, 2011 and 2010 has been prepared in accordance with IFRS. An understanding of the Company's accounting policies is necessary for a complete analysis of results, financial position, liquidity and trends.

Financial statements prepared in accordance with IFRS require Management to make estimates and assumptions relating to reported amounts of revenue and expenses, reported amounts of assets and liabilities and disclosures of contingent assets and liabilities. Management regularly evaluates the assumptions and estimates that are used in the preparation of the Company's consolidated interim financial statements.

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Estimates and assumptions used by Management are based on past experience and other factors deemed reasonable in the circumstances. 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. Critical accounting policies and estimates include the following:

#### **Impairment of Assets**

Under IAS 36, the Company shall assess, at the end of each reporting period, whether there is an indication that an asset may be impaired. Goodwill is reviewed for impairment annually or more frequently if there are indications that impairment may have occurred. If any indication of impairment exists, Management shall estimate the recoverable amount of the asset irrespective of whether there is any indication of impairment. External indicating events include, for example, changes in customer or industry dynamics and other economic declines. Internal indicating events for impairment include lower profitability or planned restructuring.

The Company's impairment tests compare the carrying amount of the asset or cash generating unit ("CGU") to its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. The determination of value in use requires the estimation and discounting of cash flows which involves key assumptions that consider all information available on the respective testing date. Management uses its judgment, considering past and actual performance as well as expected developments in the respective markets and in the overall macro-economic environment and economic trends to model and discount future cash flows.

As at December 31, 2010 the Company was required to assess its CGUs for impairment. The impairment test was performed by comparing the carrying value and the recoverable amount of the CGU. Under IFRS, the recoverable amount is the higher of the CGU's fair value less costs to sell (FVLCTS) and value in use (VIU). Fair value is calculated by applying a discount factor to management best estimates of sustainable earnings. Management applied a pre-tax discount factor of 15.5% obtained with the guidance of an independent investment analyst, to calculate the recoverable amounts for the impairment test. Management used a weighted average of expected annual earnings (before interest, income tax, depreciation and amortization of intangible assets, reduced by corporate overhead allocation) to estimate sustainable earnings. From this



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estimates of costs were deducted to arrive at the FVLCTS. The VIU of the CGU was determined by considering the future expected cash flows over the next five years, with the expected growth rate and estimated terminal value discounted at the risk-adjusted rate. Future expected cash flows were based on historical performance, known trends and capital expenditures. Growth rates were assumed to be 4% and the discount rate of 15.5% was applied.

At December 31, 2010, Global is required to apply the standards under IAS 36 Impairment of Assets based on the January 1, 2010 transition date. 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 value growth rates and EBITDA. EBITDA is the sum of earnings before interest, income taxes, depreciation and amortization.

#### **Allowance for doubtful accounts**

Global's Management 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 may impact Management's estimates in provisions against accounts receivable balances.

#### **Inventory obsolescence**

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.

#### **Provisions**

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

#### **Depreciation and useful lives**

In calculating the depreciation to be expensed in the statement of comprehensive income, for property, plant and equipment, Management is required to make estimates of the expected useful life of the Company's assets, the expected residual values of the assets, and the stream of income to be generated by the asset. These estimates are

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evaluated periodically and adjusted prospectively, where necessary, to reflect actual experience.

#### **Revenue recognition**

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 in the Consolidated Interim Statements of Financial Position. Revenues for engineering service contracts, production contracts, and 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 or estimated labor hours for each unit of production. If circumstances change the original estimates of revenues, costs, or extent of progress toward completion, then revisions to the estimates are made. These revisions may result in increases or decreases in estimated revenues or costs, and such revisions are reflected in income in the period in which the circumstances that give rise to the revision become known to Management. The Company also provides for the estimated cost of product warranties at the time of revenue recognition.

Other than the normal estimates required in the application of IFRS such as warranty, environmental remediation, allowance for doubtful account and obsolescence, there are no other critical estimates included in the unaudited consolidated financial statements.

#### **Goodwill**

During the third quarter of 2010, the Company's remaining goodwill in the amount of \$9 million was disposed of with the sale of GBIH and Bach-Simpson. The disposed goodwill related to the Company's original acquisitions of G&B and Bach-Simpson.

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#### **Changes in accounting policies**

The 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 consolidated financial statements of Global were prepared in accordance with Canadian GAAP up to and including the 2010 reporting year. In 2010, IFRS was followed to the greatest extent allowable under Canadian GAAP. Due to the mandate by the Canadian Institute of Chartered Accountants, Global has adopted IFRS in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards" with a transition date of January 1, 2010. Global's IFRS adoption date is January 1, 2011. The significant accounting policies have been applied in preparing the interim consolidated financial statements for the period ended March 31, 2011, the comparative information presented in these interim consolidated financial statements for the year ended December 31, 2010 and in the preparation of an opening consolidated IFRS statement of financial position dated January 1, 2010.

IFRS 1 sets forth guidance for the initial adoption of IFRS. Under IFRS 1, the standards are applied retrospectively at the transition date with adjustments to assets and liabilities being offset to retained earnings (deficit) unless certain exemptions are applied. Global has applied the following exemptions to its opening consolidated IFRS statement of financial position dated January 1, 2010:

(i) Fair value as deemed cost exemption

Global had the option under IFRS 1 to use fair value as deemed cost on an item-by-item basis for property, plant and equipment, investment property, or on intangible assets. Global has elected not to revalue property, plant and equipment or intangible assets and did not hold any investment property.

(ii) Business combination exemption

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 the exemption, goodwill related to business combinations that occurred prior to January 1, 2010 was tested for

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impairment even though no impairment indicators were indentified. No impairment existed as the date of transition

#### (iii) Stock-based compensation

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 to IFRS. Nor, has the Company applied IFRS 2 to liabilities arising from share-based payment transactions which settled before the date of transition to IFRS.

#### (iv) Borrowing costs

Global had the option to apply IAS 23 Borrowing Costs retrospectively which would have allowed it to capitalize borrowing costs that are directly attributable to the acquisition or the construction or production of a qualifying asset. Global has elected not to retrospectively capitalize any borrowing costs prior to the January 1, 2010 transition date and will determine the applicability for new transactions should they arise.

#### (v) Cumulative translation differences

Global could have chosen under IAS 21 "to recognize some translation differences in other comprehensive income (OCI) and accumulate these in a separate component of equity then on disposal of a foreign operation, to reclassify the cumulative translation differences for that foreign operation (including, if applicable, gains and losses on related hedges)." Global could have also elected, as a first-time adapter to not comply with these requirements for cumulative translation differences that existed at the date of transition to IFRS. The Company elected not to apply IAS 21 to cumulative translation differences that existed at the date of transition to IFRS. As noted above, by choosing this exemption; a) the cumulative translation differences for a foreign operation are deemed to be zero at the date of transition to IFRS, and b) the gain or losses on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IFRS and shall include translation differences recorded as OCI subsequent to transition. With this exemption, all of the cumulative translation adjustments (CTA) relating to the translation of G&B, were absorbed into retained deficit as at the transition date of January 1, 2010. Accordingly, the subsequent translation gains or losses recognized in OCI in 2010 to the date of disposition of GBIH were eliminated and included in the gain on sale.

#### IFRS 2 – Share Based Compensation

Global 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 at the grant date and expensed over the vesting period; with a corresponding increase to contributed surplus. The amount

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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.

The valuation of the new tranches causes the stock option expense in the first quarter 2011 to increase by \$nil (2010 - \$49,000) as compared to the stock option expense under Canadian GAAP.

#### **Impact of IFRS on Disclosure Controls and Procedures**

Business processes, including controls, are continuing to be assessed and redesigned, as needed. Management does not yet foresee any material changes coming from this transition. In regards to internal controls over financial reporting ("ICOFR"), the Company, may in the future look at additional changes to ICOFR if required to deal with the accounting policies adopted for IFRS Accounting Standards issued but not yet applied. This process will be ongoing through 2011 to ensure that appropriate additional controls and procedures for future IFRS reporting requirements are implemented based on the actual accounting policies adopted by the Company.

The effectiveness of the Company's disclosure controls and procedures rests essentially upon Management's ability to remain informed of the activities of the various accounting standard-setting bodies and market regulators. Management stays informed in many ways including attending educational seminars and webinars, reading relevant literature and through consultation with the Company's advisors.

Global's Audit Committee and Board of directors have been briefed on IFRS by the Company's external auditors. Management has also kept the Audit Committee and Board of Directors informed of significant accounting policy choices, alternative accounting policies available under IFRS, changes necessitated by the adoption of IFRS and what the potential impacts of various IFRS elections would be. In addition, Management reported to the Audit Committee and the Board of Directors on its progress in preparing for reporting under IFRS.

Global's DC&P have been designed to provide reasonable assurance that material information relating to Global is made known to the CEO and the CFO by others and that information required to be disclosed by Global in its annual filings, interim filings or other reports filed or submitted by Global under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation.

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#### Impact of IFRS on Business Activities

Management does not expect that the implementation of IFRS will significantly impact the Company's business or operations. There will not be a material impact on the Company's business activities.

#### **Accounting Standards Issued But Not Yet Applied:**

Global has applied IFRS 9 Financial Instruments (as issued in November 2009 and revised in October 2010) as it relates to classification and measurement of financial assets and financial liabilities in advance of its effective date. IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. Global has early adopted IFRS 9 as of January 1, 2010. Global early adopted IFRS 9 as it is consistent with Global's objective and approach to managing its financial assets and financial liabilities.

IFRS 9 introduces new classification and measurement requirements for financial assets and financial liabilities that are within the scope of International Accounting Standard ("IAS") 39 Financial Instruments: Recognition and Measurement. Specifically, IFRS 9 requires all financial assets to be classified and subsequently measured at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are to be classified and subsequently measured at amortized cost using the effective interest method or at fair value through profit or loss ("FVTPL"). Upon initial recognition, an entity may designate a financial liability as measured at FVTPL when permitted or when doing so results in more relevant information.

Global measures investments at fair value at the end of each reporting period with changes in fair value of investments being recognized in the consolidated statement of comprehensive income. Global had previously recognized investments as held for trading prior to adopting IFRS.

The International Accounting Standards Board has issued IFRS 10, IFRS 11, and IFRS 12 and has made amendments to IAS 27 and IAS 28, which are effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If any of these standards or amendments to standards is adopted prior to January 1, 2013 the other standards and amendments to standards must also be adopted at the same time.

IFRS 10 identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements and provides guidance to assist in the determination of control. As a result of the issuance of IFRS 10, the existing requirements of IAS 27 (2008), Consolidated and Separate Financial Statements, are carried forward for separate financial statements as IAS 27 (2011).

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IFRS 11 replaces the guidance in IAS 31, Interest in Joint Ventures, and classifies joint arrangements as either joint operations or joint ventures. Under IFRS 11 joint ventures will no longer be able to be accounted for using proportionate consolidation and will be required to use the equity method.

IFRS 12 is a comprehensive standard on disclosure requirements for all forms of interests in other entities and is designed to provide information to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows.

IAS 28 (2011) carries forward the requirements of IAS 28 (2008) Investments in Associates, with limited amendments.

The Company intends to adopt these standards and the amendment to the standards noted above in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect these to have a material impact on the financial statements.

The International Accounting Standards Board has issues IFRS 13 effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. The Company intends to adopt IFRS 13 in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 13 have a material impact on the financial statements.

The International Accounting Standards Board has made amendments of IFRS 7, Financial Instruments: Disclosures, which addresses disclosures requirements for transfers of financial assets, and to IAS 12, Income Taxes, which addresses the measurement of deferred tax assets related to the depreciable component of investment properties that are measured at fair value. Both of these amendments are effective for annual periods beginning on or after January 1, 2012, with early adoption permitted for the amendment to IAS 12. The Company expects to adopt the amendments in its financial statements for the annual period beginning on January 1, 2012 and does not expect these amendments to have a material impact on the financial statements.

#### **Disclosure Controls and Internal Controls over Financial Reporting**

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICOFR") as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"), or causing them to be designed under their supervision, in order to provide reasonable assurance

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regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Global's DC&P have been designed to provide reasonable assurance that material information relating to Global is made known to the CEO and the CFO by others and that information required to be disclosed by Global in its annual filings, interim filings or other reports filed or submitted by Global under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation. On January 1, 2011, Global adopted IFRS as its framework for financial reporting. In connection with the adoption of IFRS, Global updated its internal controls over financial reporting, as necessary, to facilitate the respective IFRS convergence and transition activities performed. Other than the adoption of IFRS, no other significant changes in internal controls over financial reporting occurred during the period ended March 31, 2011. Our ICOFR have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The effectiveness of the Company's disclosure controls and procedures rests essentially upon Management's ability to remain informed of the activities of the various accounting standard-setting bodies and market regulators. Management stays informed in many ways including attending educational seminars and webinars, reading relevant literature and through consultation with the Company's advisors.

Because of their inherent limitations, DC&P and ICOFR may not prevent or detect all misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.

As of March 31, 2011, Global's Management, with the participation of the CEO and the CFO, have evaluated the effectiveness of the Company's ICOFR and concluded they are not effective based on such evaluations. Accordingly the Company has concluded that the disclosure controls and procedures are also not effective. In connection with this assessment, Management has identified areas of concern in:

1. Segregation of duties

Segregation of duties and user access control deficiencies have been identified within the Company's accounting and finance departments and its financial information systems. Specifically, certain duties within the accounting and finance departments were not properly segregated due to the limited number of individuals employed in these areas. These deficiencies may be considered a material weakness resulting in a more than remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.



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Management continues to review accounting processes with a view to improve/expand segregation of duties and reduce access control deficiencies. However, future mitigation is limited by the relatively small number of personnel within the Company's accounting and finance departments.

#### **2. Reliance on spreadsheets**

Accounting personnel rely heavily on the use of accounting spreadsheets to generate the Company's quarterly and annual financial reporting, including the segregation between continuing and discontinued operations. This deficiency may be considered a material weakness resulting in a more than remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.

Management will review the extent accounting spreadsheets are used to generate the Company's quarterly and annual financial reporting; however, due to the complexity of the Company's financial reporting; reliance on these spreadsheets will likely be required in the future.

#### **3. Complex and non-routine transactions**

As required, the Company records complex and non-routine transactions. Sometimes, these transactions are extremely technical in nature and require an in-depth understanding of IFRS and Canadian tax regulations. The Company's Chief Financial Officer is responsible for IFRS and Canadian tax regulations. The Company's CFO consults with third party expert advisors as needed in connection with the recording and reporting of complex and non-routine transactions. In addition, quarterly reviews of the financial statements are completed by the Company's auditors, and an annual audit is completed. The financial statements are also presented to the Audit Committee for its review and approval.

#### **4. Corporate Governance**

Mr. Fausto Levy succeeded Mr. Terry McManaman, as the Company's Acting President and CEO in July 2010. Concurrently, Mr. Thomas Dea was appointed to the position of Chairman of the Board of Directors. Accordingly, a potential conflict of interest associated with the previous organization structure has been eliminated.

Due to a change in Company's legal counsel and relocation of the Administrative Head Office, the Company's Board has recently appointed Ross Corcoran, Vice President and Chief Financial Officer as the Company's Secretary replacing Brian McMullan who was the Company's Secretary on a temporary basis and left the Company in March 2011.

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#### 5. CADRI

On November 14, 2007, Global acquired the business assets and net working capital of CADRI. During the fiscal year ended December 31, 2008, Company Management reviewed the design and the operating effectiveness of internal control over financial reporting of CADRI's significant processes. As a result, a number of process-level controls including information technology and general computer controls were assessed to be ineffective as of December 31, 2008 and this assessment remained the same for 2009 and 2010.

To date, some key internal controls are still under evaluation and implementation as this is a continuous improvement process. CADRI Management continues to enhance internal control over financial reporting structure; however, the primary focus continues to be the implementation of a new accounting system and ERP system. This will allow the following:

- i) The automation of processes and implementation of some automated controls that are currently manually intensive;
- ii) The integration of end user computing ("EUC") applications, for example spreadsheets and databases (such as CADRI's inventory data base); and
- iii) The implementation of controls relating to information technology, also referred to as General Computer Controls ("GCC"), such as program changes, access to programs, and data and computer operations.

Management had previously identified the following internal control deficiencies at CADRI:

#### Accounting for Inventories

Although continuous improvement has been made, there continues to be dissatisfaction with system control over CADRI's inventory processes which may have an impact on the quality of the accounting for the cost of goods sold and the revenue recognition based on the percentage of completion method for certain long-term contracts. CADRI's inventory processes have been under continuous review to enhance efficiency and effectiveness, and strengthen controls to improve the accuracy, completeness, validity, valuation and timely recording of inventory transactions in the following areas:

- a) Tracking of inventory movements including the receipt, transfer, storing and shipping of goods, the issuance of parts and materials to the production to capture all costs relating to a work order and the identification of inventory on consignment;

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- b) Purchasing level of authority and purchase order completion and approval;
- c) Physical access security to inventory;
- d) Periodic physical inventory count procedures and review and approval of inventory adjustments;
- e) Data entry and maintenance of the accuracy and integrity of the inventory databases, including access restriction to personnel;
- f) Creation, changes and maintenance of master parts numbers in the inventory databases;
- g) Allocation of time and attendance to work orders and recording of labor costs;
- h) Creation and closing of work orders; and
- i) Evaluation of inventory net realizable value and determination of allowance for obsolete items.

On February 1, 2011, CADRI further deployed the new accounting software to manage purchases, inventory receipts and sales orders for the engine and services divisions." No mention of inventory database integration. Although progress has been made, Management is of the opinion that controls over accounting for inventories will only become more reliable with the full implementation of additional process controls together within the new accounting system, which is currently underway. During the quarter ended March 31, 2011, one of the two inventory databases has been integrated in to CADRI's new accounting system to manage purchases, inventory receipts and sales orders for the engine and services divisions. This integration has significantly improved the tracking of inventory movements. Work is currently under way to integrate the remaining database.

The new system enables Management to more proactively address various system and control weaknesses; improve alignment of corporate strategies and operations; reduce risk; improve productivity and insight into daily activities as well as improve financial management and reporting processes.

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#### Accounting for Accounts Payable and Accrued Liabilities

During the first quarter of 2011, there continued to be improvements in the validation of vendor invoices against the approved purchase order and the receiving documents. There has also been an improvement in the procedures to determine accrued liabilities at period end. Some of the manual procedures performed to validate vendor invoices are in the process of being automated with the implementation of the purchasing module of the new accounting system. The purchasing module is currently in use in the engine department. It has greatly improved the validation of vendor invoices against approved purchase orders and receiving documents as well as the tracking of accrued expenses.

#### Accounting for Capital Assets

Procedures and controls to capture and record capital assets accurately, completely, timely and maintain adequately the fixed assets register have continued to be improved at CADRI during the first quarter 2011. CADRI Management has implemented procedures to identify and record capital assets on a timelier basis, and follow up on capital expenditure projects. The implementation of the accounting system allows automation of the process and the integration of end user computer applications reducing the risk of errors due to manual data entry.

#### Period End Financial Reporting Procedures

The period end financial reporting procedures include account reconciliations over balance sheet accounts and various account analyses. CADRI's account reconciliation procedures have been formalized, and most account reconciliations are being performed on a timely basis and supported by adequate documentation. CADRI Management now utilizes a month-end schedule to manage the general ledger close process.

#### Reliance on Spreadsheets

Accounting personnel at CADRI no longer rely heavily on the use of accounting spreadsheets to generate monthly financial reports since the implementation of the new accounting software. Management believes use of spreadsheets for supplementary analysis has not resulted in a misstatement of the financial statements. It is no longer a material weakness in CADRI's control environment given reduced reliance on spreadsheets.

#### End User Computing Applications (for example, spreadsheets and databases)

CADRI utilizes various EUC applications to support the accounting of transactions such as: inventory management, inventory month-end adjustment, depreciation expense, accrued liabilities, percentage of completion and fixed assets additions. Those EUC

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applications are not supported by the same control environment as purchased computing applications. CADRI Management will establish a corporate procedure to implement access and change controls over EUC applications. Some of those EUC applications may be developed and integrated into the new accounting system. As mentioned previously, one of the two inventory databases has been integrated into the system.

#### Inherent Limitations on Effectiveness of Controls

There were continual improvements to, but no material changes in, the design of CADRI's disclosure control systems and internal control over financial reporting during fiscal 2008, 2009, and 2010, as the potential improvements to these controls is largely dependent upon the implementation of additional modules of the new accounting system and the related processes and controls. In November 2009, a VP Finance, who became the CFO in July 2010, was hired to provide increased focus to these required improvements, including implementation of the new accounting system. CADRI regularly reviews its controls and procedures and engaged an independent advisor to examine the new accounting system implementation and provide recommendations for a Control and Risk Matrix. The process involved accounting staff to review controls, provide training and increase awareness of testing control activities, examination of weaknesses and suggesting improvements.

It should be noted that a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that Management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances, or (ii) the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

Based on the work performed, Management believes that there are no material inaccuracies or omissions of any material fact in this MD&A. Management, to the best of its knowledge, also believes that the March 31, 2011 consolidated interim financial statements are presented fairly in all material respects.

# GLOBAL RAILWAY INDUSTRIES LTD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FOR THE THREE MONTHS ENDED MARCH 31, 2011

#### Forward Looking Statements

This MD&A contains certain forward-looking statements about the objectives, strategies, financial conditions, results of operations and businesses of Global. The use of any of the words "expect", "anticipate", "continue", "objective", "will", "should", "believe", "plan", "intend", "ongoing", "estimate", "may", "project" or similar expressions are intended to identify forward-looking statements. Statements that are not historical facts are forward-looking and are subject to important risks, uncertainties and assumptions. These statements are based on the Company's current expectations about its business and the markets in which it operates, and upon various estimates and assumptions. The results or events predicted in these forward-looking statements may differ materially from actual results or events if known or unknown risks, trends or uncertainties affect the Company's business, or if its estimates or assumptions turn out to be inaccurate. As a result, there is no assurance that the circumstances described in any forward-looking statement will materialize.

Readers are cautioned that expectations, estimates, projections and assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. With respect to forward-looking statements contained within this MD&A, Global has made the following assumptions:

- its intention is to use working capital, and the anticipated cash generated from operating activities in 2011 to finance ongoing working capital requirements and its 2011 capital expenditures budget and this assumption is based on Global's belief that its access to cash will exceed its expected requirements; and
- that the overall economy will continue to grow, albeit at a slower pace than over the last number of quarters, and that Global would continue to be a beneficiary of these favorable market fundamentals.

Significant and reasonably foreseeable factors that could cause the Company's results to differ materially from its current expectations are discussed in the section entitled "Business Risks" contained in the Company's Management's Discussion and Analysis for the year ended December 31, 2010 filed by Global with the Canadian securities commissions (available on SEDAR at [www.sedar.com](http://www.sedar.com)), as updated under the heading "Business Risks" beginning at page 15 of this MD&A. As at March 31, 2011, these business risks and uncertainties have not changed significantly from the description.

The Company disclaims any intention or obligation to update any forward-looking statement even if new information becomes available, as a result of future events or for any other reason.

# GLOBAL RAILWAY INDUSTRIES LTD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FOR THE THREE MONTHS ENDED MARCH 31, 2011

For additional guidance, please review the Company's annual consolidated financial statements and Annual Information Form, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

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| <p><b><u>DIRECTORS</u></b></p> <p><b>Thomas Dea</b><sup>1</sup><br/>Chairman of the Board</p> <p><b>Laurie Bennett, CA</b><sup>1</sup><br/>Chair, Audit Committee</p> <p><b>Jacques Cote</b><sup>1</sup></p> <p><b>Alan Sellery</b></p> <p><b><u>OFFICERS</u></b></p> <p><b>Fausto Levy</b><br/>President &amp; Chief Executive Officer</p> <p><b>Ross Corcoran, MBA</b><sup>2</sup><br/>Vice President Finance, Chief Financial Officer &amp; Secretary</p> <p><b>Brian McMullan, CA</b><sup>3</sup><br/>Vice President &amp; Secretary</p> | <p><b><u>CORPORATE OFFICE</u></b></p> <p><b>Global Railway Industries Ltd.</b></p> <p><b>Administrative Head Office</b><br/>155 Montreal-Toronto Blvd,<br/>Lachine, Quebec, H8S 1B4</p> <p>Phone (514) 634-3131, Ext. 136<br/>Fax (514) 634-3932<br/>Email <a href="mailto:info@globalrailway.com">info@globalrailway.com</a><br/>Web site: <a href="http://www.globalrailway.com">www.globalrailway.com</a></p> <p><b><u>BANKERS</u></b><br/>BMO – Montreal, Quebec<br/>HSBC Bank Canada – Montreal, Quebec</p> <p><b><u>AUDITORS</u></b><br/>KPMG LLP<br/>London, Ontario</p> <p><b><u>LEGAL COUNSEL</u></b><br/>Davies Ward Phillips &amp; Vineberg LLP<br/>Montreal, Quebec<br/>Toronto, Ontario</p> <p><b><u>TRANSFER AGENT</u></b><br/>Computershare Trust Company of Canada<br/>600, 530 - 8<sup>th</sup> Avenue S.W.<br/>Calgary, Alberta T2P 3S8<br/>Phone 1-800-564-6253</p> <p><b><u>STOCK EXCHANGE</u></b><br/>Toronto Stock Exchange<br/>Symbol: GBI</p> |
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<sup>1</sup> Member of Audit Committee

<sup>2</sup> Ross Corcoran was appointed Secretary March 2011

<sup>3</sup> Brian McMullan resigned as Vice President & Secretary March 2011