# *PRELIMINARY PROSPECTUS*

**THIS IS A PRELIMINARY PROSPECTUS RELATING TO THESE SECURITIES, A COPY OF WHICH HAS BEEN FILED WITH THE ALBERTA, BRITISH COLUMBIA AND ONTARIO SECURITIES COMMISSIONS BUT WHICH HAS NOT YET BECOME FINAL FOR THE PURPOSES OF A DISTRIBUTION. INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THAT A RECEIPT IS OBTAINED FROM THE ALBERTA, BRITISH COLUMBIA AND ONTARIO SECURITIES COMMISSIONS FOR THE FINAL PROSPECTUS.**

*This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons authorized to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.*

October 26, 1999

## GLOBAL RAILWAY INDUSTRIES LTD.

**$3,000,000 (Minimum)**
**$ (Maximum)**

**1,200,000 Units (Minimum)**
**Units (Maximum)**

**Offering Price - $2.50 per Unit**

Global Railway Industries Ltd. (the "Corporation") hereby offers for sale a minimum of 1,200,000 units ("Units") ("Minimum Offering") to a maximum of Units ("Maximum Offering") of the Corporation at an issue price of $2.50 per Unit (the "Offering"). Each Unit consists of one (1) common share ("Common Share") and one Common Share purchase warrant ("Warrant"). Each Warrant entities the holder thereof to acquire one additional Common Share at a price of $3.25 until twelve (12) months from the date of closing of the Offering (the "Warrant Expiry Date"). The Offering price of the Units hereunder was determined by negotiation between the Corporation and Acumen Capital Finance Partners Limited (the "Agent"), based on the trading price of the Common Shares of the Corporation on The Alberta Stock Exchange and other market considerations. The Warrants will be separated from the Common Shares at Closing. There is currently no market through which the Warrants may be sold. The Common Shares of the Corporation trade on The Alberta Stock Exchange under the symbol "GBI". The closing trading price of the Common Shares on October , 1999 was $ .

**Price: $2.50 per Unit**

| | Number of Units | Price to Public | Agent's Commission(1) (2) | Net Proceeds to the Corporation(3) |
|---|---|---|---|---|
| Per Unit | 1 | $2.50 | $.1875 | $2.3125 |
| Minimum Offering | 1,200,000 | $3,000,000 | $225,000 | $2,775,000 |
| Maximum Offering | $ | $ | $ | $ |

**Notes:**

(1) The Agent will be paid a commission of 7.5% of the gross proceeds of the sale of Units. In addition the Corporation will be responsible for all out-of-pocket costs incurred by the Agent, regardless of whether or not the Offering is completed, and has paid the Agent a non-refundable fee of $15,000 (plus GST). See "Plan of Distribution".

(2) The Corporation has also agreed to grant to the Agent upon closing of the Offering, a non-transferable option (the "Agent's Option") to acquire between 120,000 Units in the case of the Minimum Offering and an aggregate of up to Units in the case of the Maximum Offering (an amount equal to 10% of the number of Units sold hereunder) at an exercise price of $2.50 per Unit for a period of twenty-four (24) months following the date of the closing of the Offering. The Agent's Option is qualified by and will be distributed pursuant to this prospectus. See "Plan of Distribution".

(3) After deducting the Agent's commission but before deducting expenses of the Offering, estimated at $75,000.

**The securities offered hereby are considered speculative due to the nature of the Corporation's business and its present stage of development and should be purchased only after full review of this prospectus. The Corporation just recently acquired Rafna Industries Ltd. and has become engaged in the railway maintenance and supply business. INVESTMENTS IN START-UP BUSINESSES INVOLVE A HIGH DEGREE OF RISK AND INVESTORS SHOULD NOT INVEST ANY FUNDS IN THIS OFFERING UNLESS THEY CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT. The success of the business of the Corporation is contingent on the judgment and expertise of the directors and officers of the Corporation. Persons who are not willing to rely on the expertise of the directors and officers of the Corporation should not invest in this Offering. A significant portion of the net proceeds of the Offering will be held in a separate bank account and used for acquisitions as determined by the Corporation's Acquisition Committee. Certain risk factors are inherent in such use of proceeds. The Offering price of $2.50 per Unit exceeds the net book value per Common Share as at June 30, 1999 (audited), after giving effect to the issuance of the Units under this Offering by $1.70 or 68% (Minimum Offering) or by $ per Common Share or % (Maximum Offering). See "Use of Proceeds", "Risk Factors" and "Dilution".**

The percentage of Common Shares beneficially owned, directly or indirectly, by promoters, directors, senior officers and control persons of the Corporation, collectively, is 48.83% prior to giving effect to this Offering and 39.35% (Minimum Offering) and % (Maximum Offering) after giving effect to this Offering assuming no Units are purchased by these persons.

The Offering is not underwritten and is subject to a total minimum subscription of $3,000,000 which must be raised within 90 days of the issuance of a receipt for the filing of a final prospectus or such other time as may be authorized by the appropriate regulatory authority and agreed to by the Agent (the “Expiry of the Offering”). In the event the minimum subscription is not raised, subscription monies will be returned to subscribers without interest or deduction. See “Plan of Distribution”.

Acumen Capital Finance Partners Limited conditionally offers, on a best efforts basis, a minimum of 1,200,000 Units and a maximum of Units subject to prior sale, if, as and when issued by the Corporation in accordance with the conditions contained in the Agency Agreement referred to under “Plan of Distribution” and subject to the approval of certain legal matters on behalf of the Corporation by Ballem MacInnes, Calgary, Alberta, and on behalf of the Agent by Burstall Ward, Calgary, Alberta.

The initial closing of the offering is expected to occur on or about , 1999 or such date as may be determined by the Corporation and the Agent. The Corporation and the Agent reserve the right to hold subsequent closings if the Maximum Offering is not attained prior to the date of such initial closing.

Subscriptions for Units will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Certificates for the Common Shares and Warrants will be available for delivery at the closing of this Offering.

ACUMEN CAPITAL FINANCE PARTNERS LIMITED
200, 513 8th Avenue S.W.
Calgary, Alberta T2P 1G3
TEL: (403) 571-0532

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## PROSPECTUS SUMMARY

*The following summary information must be read in conjunction with and is qualified in its entirety by the more detailed information appearing elsewhere in this prospectus.*

### The Corporation

Global Railway Industries Ltd. (the "Corporation") was incorporated as 708288 Alberta Ltd. pursuant to the provisions of the *Business Corporations Act* (Alberta) by receipt of a Certificate of Incorporation dated January 30, 1997. The Corporation changed its authorized capital, its Articles and its name to RMN Technologies Inc., pursuant to the provisions of the *Business Corporations Act* (Alberta), by issuance of a Certificate of Amendment dated April 9, 1997. The Corporation amended its Articles to remove the private company restrictions effective May 23, 1997. The Corporation was formed as a Junior Capital Pool company on January 30, 1997, and completed its major transaction, as that term is defined in The Alberta Stock Exchange policies and procedures. In conjunction with the completion of its major transaction, the Corporation changed its name to Global Railway Industries Ltd. and had its Junior Capital Pool status removed. The Corporation presently trades on The Alberta Stock Exchange under the symbol "GBI". See "Business of the Corporation".

### The Offering

**Issue:** A minimum of 1,200,000 Units (the "Minimum Offering") up to a maximum of Units (the "Maximum Offering") are being offered (the "Offering").

Each Unit consists of one (1) common share in the capital of the Corporation ("Common Share") and one Common Share purchase warrant ("Warrant"). Each Warrant entitles the holder thereof to acquire one additional Common Share at a price of $3.25 until the Warrant Expiry Date. See "Plan of Distribution" and "Description of Share Capital".

**Offering Price:** $2.50 per Unit.

**Use of Proceeds:** Upon subscriptions for a Minimum Offering being received and the other conditions to the Offering being satisfied or waived, the subscription funds may be released to the Corporation. The net proceeds of the Offering and funds on hand are intended to be used for acquisitions with remaining funds (the amount of such funds being dependent on the amount raised under the Offering) being used for the repayment of debt of the Corporation and the acquisition of machinery and equipment. A significant portion of the net proceeds of the Offering will be held in a separate bank account and used for acquisitions as determined by the Corporation's Acquisition Committee. Certain risk factors are inherent in such a use of proceeds. See "Use of Proceeds".

**Risk Factors:** The business of the Corporation entails certain risks and consequently investment in the Units should be considered highly speculative. Prospective investors should carefully review the risk factors of the Corporation, together with other information contained elsewhere in this prospectus:

(1) The Corporation is still in initial stages of development in its current business. A significant amount of funding will be required to fully exploit the opportunities available to the Corporation and there can be no assurance that such funding will be available, and if so, in a timely manner.

(2) An integral component of the Corporation's business plan consists of the acquisition of additional railway maintenance and supply companies. There are no guarantees that such companies can be acquired or that if acquired, will attain the level of growth anticipated by the Corporation's management.

(3) The Corporation carries out operations in both Canada and the United States. Fluctuations in the United States and Canadian monetary exchange rates may affect the Corporation's profits.

(4) The Corporation has been and may continue to remain reliant upon third party contractors to provide products and services to produce its products and services. The Corporation 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 Corporation may be limited.

(5) The Offering price of $2.50 per Unit exceeds the net tangible book value per Common Share as at June 30, 1999 (audited), after giving effect to the issue of Units by $1.70 or 68% (Minimum Offering) or by $ per Common Share or % (Maximum Offering). See "Dilution".

(6) The Corporation is dependent on the continued service of key personnel. See "Risk Factors".

**Conditions of Closing:** This Offering will not close and subscription funds will be returned to subscribers without interest or deduction unless the Corporation receives subscriptions for the Minimum Offering. See "Plan of Distribution".

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## THE CORPORATION

The Corporation was incorporated as 708288 Alberta Ltd., pursuant to the provisions of the *Business Corporations Act* (Alberta), by receipt of a Certificate of Incorporation dated January 30, 1997. The Corporation changed its authorized capital, its Articles and its name to RMN Technologies Inc., pursuant to the provisions of the *Business Corporations Act* (Alberta), by issuance of a Certificate of Amendment dated April 9, 1997. The Corporation amended its Articles to remove the private company restrictions effective May 23, 1997.

The Corporation has been a Reporting Issuer in the Province of Alberta since May 22, 1998. The Corporation was organized as a junior capital pool corporation with the meaning of the Alberta Securities Commission Rule 46-501 and The Alberta Stock Exchange ("ASE") Circular 7 and began trading on The Alberta Stock Exchange (the "ASE") on June 30, 1998 under the trading symbol "RTI" until February 25th, 1999, when its trading symbol was changed to "GBI". While it was a junior capital pool company, the Corporation identified the acquisition of Transportation Technologies Inc. ("TTI"), and its wholly owned subsidiary, Rafna Industries Ltd. ("Rafna") as a potential acquisition. TTI is a private Alberta company, incorporated on March 7, 1996 pursuant to the provisions of the *Business Corporations Act* (Alberta). Rafna is a private company, incorporated pursuant to the provisions of the *Canada Business Corporations Act*. The acquisition of TTI and Rafna constituted the Corporation's major transaction ("Major Transaction") as described more particularly as follows. See "Major Transaction".

In conjunction with the completion of its Major Transaction, the Corporation changed its name to Global Railway Industries Ltd. Upon the completion of the Corporation's Major Transaction, the Corporation became a Reporting Issuer in the Provinces of British Columbia and Ontario pursuant to the filing, in January of 1999, of a securities exchange takeover bid circular. See "Major Transaction".

The head office of the Corporation, TTI and Rafna is located at 450, 444 - 5 Avenue SW, Calgary, Alberta, T2P 2T8, and the registered office of the Corporation and TTI is located at 1800 First Canadian Centre, 350 - 7 Avenue SW, Calgary, Alberta, T2P 3N9. The registered office of Rafna is located at 19300 Clark Graham, Baie d'Urfe, Quebec, H9X 3R8.

### Major Transaction

The Corporation was incorporated as a Junior Capital Pool company and therefore was required to complete a "Major Transaction" as defined by the Alberta Securities Commission Rule 46-501 and The Alberta Stock Exchange ("ASE") Circular 7 within a specified time frame. As its Major Transaction, the Corporation acquired all the issued and outstanding securities of TTI. TTI owns all the issued and outstanding shares of Rafna.

TTI acquired Rafna effective March 31, 1998. The purchase price of $2,453,505 was paid by cash of $1,853,505, a promissory note for $300,000 and the issuance to the Rafna shareholders of 400,000 shares of TTI at $0.75 per TTI share.

The Major Transaction consisted of the acquisition, pursuant to a securities exchange takeover bid (the “Takeover”) of all the issued and outstanding common shares (the "TTI Shares") in the capital of TTI and all the issued and outstanding stock options (the "TTI Options") of TTI held by the security holders of TTI (the "TTI Security Holders").

In consideration for each TTI common share exchanged pursuant to the Takeover, the Corporation issued one common share (being, in total 2,836,442 common shares) at a deemed price of $0.75 per common share. In consideration for each TTI Option (entitling the holder thereof to acquire one TTI common share at exercise prices between $0.75 and $1.50 per share) exchanged pursuant to the Takeover, the Corporation issued one stock option (being, in total 215,000 stock options) entitling the holder to acquire one common share of the Corporation at exercise prices between $0.75 and $1.00 per common share.

The ASE issued its bulletin advising that the Corporation completed its Major Transaction with the acquisition of TTI and was no longer considered a Junior Capital Pool Company effective February 25, 1999. The completion of the Major Transaction and satisfaction of the ASE’s minimum listing requirements allowed the Corporation to be reclassified as a regular share listing, no longer subject to the Alberta Securities Commission Rule 46-501 and The Alberta Stock Exchange (“ASE”) Circular 7. As a result of the Major Transaction, TTI and Rafna are wholly owned subsidiaries of the Corporation. The Major Transaction has been accounted for in the financial statements included in this Prospectus as a reverse take-over with TTI being the acquiring entity.

## BUSINESS OF THE CORPORATION

### Overview

The Corporation designs, manufactures, markets and installs rail gear equipment for use in the railway industry. The Corporation’s manufacturing and installation facility is located in Montreal, Quebec and has provided products and services to railway companies for over fifteen years. The Corporation’s head office is located in Calgary, Alberta.

The Corporation’s management believes several areas of growth exist in the North American railway supply and maintenance industry. The Corporation’s current product line has several competitive advantages and sales are expected to continue to grow with enhanced marketing efforts. Additional growth is expected from the strategic acquisition of existing railway product and service suppliers. Companies in the sector are typically characterized as being small, regional players lacking the resources for further growth. This industry fragmentation favourably positions the Corporation to identify acquisition opportunities which provide synergies with existing operations.

**Industry Background**

The railway industry has recently been impacted by regulatory changes, the privatization of CN Railway in Canada, and the increased north-south movement of goods resulting from the implementation of the North American Free Trade Agreement ("NAFTA"). These industry changes have created opportunities for rail carriers in all parts of North America as they are no longer restricted by international boundaries. The outcome is an overall improvement in the flow of railway traffic.

Railway freight carriers in North America compete directly with truck transportation companies. A shortage of truck drivers and more congested highways are viewed by the railroads as an opportunity to win back freight customers. Railway companies are therefore looking for ways to run trains faster and more efficiently. This is being achieved in many ways including a shift to shorter rail lines in some regions, incorporation of new technology, and out sourcing of products and services required to maintain the locomotives, freight cars and railway track. The major rail carriers' preference is expected to rely on fewer suppliers in order to achieve consistent high quality service at a fair value.

**Products**

The Corporation manufactures and installs rail gear units on small, medium and heavy duty service vehicles. Simplified, the rail gear is a set of rail wheels manufactured to fit a certain make and model of truck. The rail gear is installed on the under carriage of the truck chassis. The Corporation's rail gear is hydraulically raised and lowered to enable the operator of the service vehicle to go from road to rail in a rapid and safe manner. This enables the service vehicles to perform various repair and maintenance functions on the rail line.

Management believes the Corporation's product has several advantages including:

- a greater load capacity;
- the ability to operate as an automated hydraulic system and therefore be more user friendly than non-hydraulic systems;
- competitors' products operate manually, have a greater number of components prone to wear, and therefore require higher levels of service and maintenance;
- fewer wear components result in less service and maintenance requirements; and

- competitively priced.

The Corporation continues its new product development program to maintain a technological advantage. A new product recently introduced is currently being tested in the market. The new hi-rail product is designed to minimize wear and tear on the vehicle, modifications to the vehicle and to improve overall versatility of the vehicle. Product feedback to date has been positive and the Corporation believes will position it favorably against its peers.

**Competition**

The Corporation's major competitor for rail gear is Fairmont Tamper ("Fairmont"), a division of Harsco Corporation. Harsco Corporation is a New York Stock Exchange listed company based in the United States. The Corporation's management estimates Fairmont to have approximately 70% of the U.S. market share. The remaining 30% of the U.S. market is serviced by several other smaller companies including Mitchell Equipment Corporation, Diversified Metal Fabricators Inc. and Aries , based out of the states of Illinois and Georgia and the Country of Australia, respectively.

In Canada, Fairmont has approximately 50% of the current market share. Management believes the remaining Canadian market is currently being served by the Corporation.

**Manufacturing Facility**

The Corporation manufactures and installs its rail gear at a 25,000 square foot leased facility in Montreal, Quebec. The Corporation recently completed an expansion of this facility enabling it to increase annual production to $18 million - $20 million in sales at current unit prices. The capacity is approximately 900 to 1000 units per year with one eight hour work shift. In the event an increase in production is required to meet demand, the opportunity to increase to two work shifts exists.

The Corporation currently employs forty full-time personnel. The Corporation is a party to a collective bargaining agreement with the National Automobile Aerospace Transportation and General Workers Union of Canada. The collective bargaining agreement expires on April 30, 2001.

**Market Overview**

***Canadian Market***

The Canadian market for new manufactured rail gear is believed by management to be approximately 700 units per year. The Corporation currently manufactures and sells approximately 325 units mostly to Canadian railway companies.

While the market potential in Canada is limited, the Corporation believes it can increase its current market share.

### *United States Market*

The Corporation's management believes the current annual U.S. market for new manufactured rail gear is approximately 3000 units. The Corporation has a negligible share of the U.S. market.

The Corporation has only recently commenced marketing to U.S. customers. The Corporation currently has test units in use with all the major railways in the U.S. It has taken the Corporation approximately one year to achieve this. To date, feedback from the evaluation of the test units has been positive. Going forward, the Corporation intends to capitalize on the feedback by increasing its marketing efforts and concentrating on service and meeting delivery dates to its customers.

### Growth Opportunities

Management of the Corporation believes future growth opportunities are as follows:

- In the past, the Corporation has marketed its products mainly to railway carriers in Canada. The Corporation has commenced marketing its products to U.S. customers.

- To date, the Corporation has not focused its marketing efforts internationally. The Corporation believes near term opportunities may exist in Mexico and Sweden. Long term opportunities may include other international markets.

- The Corporation believes the railway equipment and supply industry is fragmented and opportunities for strategic acquisitions exist.

- As larger railway companies sell shorter, unprofitable railway lines to smaller railway companies, the market for the Corporation's products and services in North America are expected to expand.

## DIRECTORS, EXECUTIVE OFFICERS AND KEY EMPLOYEES

The following are the names and municipalities of residence of the directors, officers and key employees of the Corporation, their positions and offices with the Corporation and their principal occupations during the last five years and the number and percentage of Common Shares owned as of the date hereof and after giving effect to this Offering:

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| **Name and Municipality of Residence** | **Office** | **Principal Occupation and Positions During Last Five Years** | **Number and Percentage of Common Shares Beneficially Owned Before Giving Effect to the Offering**(3)(4) |
|---|---|---|---|
| Michael Kohut (1)<br>Calgary, Alberta | President & Director | Michael Kohut received his Bachelor of Commerce from the University of Calgary in 1989 and has been a Chartered Accountant since December 1992. Michael Kohut is the President of MM Capital Corp., a private company controlled by Michael Kohut which specializes in corporate finance and merchant banking. Michael Kohut was a Senior Tax Manager with KPMG in Calgary where he has practised from November 1994 until November 1997 when he left KPMG to form MM Capital Corp. Prior thereto, Michael Kohut was a tax associate with Deloitte & Touche in Calgary from June 1993 to October 1994 and was an audit supervisor with KPMG in Calgary from September 1989 to May 1993. | 222,300(5)<br>(4.47%) |
| Dale Owen(2)<br>Calgary, Alberta | Secretary & Director | Mr. Owen received his B. Comm in 1988 and became a Chartered Accountant in 1990. He is a Partner with the accounting firm of Halpin, Antony, Owen & Mayer in Calgary where he has practised since June 1996. Mr. Owen was an associate with the accounting firm of Antony, Bleackley Hanson & McCowan from September 1993 to June 1996 and prior thereto was with Peat Marwick Thorne from September 1988 to September 1993. | 200,000(5)<br>(4.02%) |
| James Riddell(1)(2)<br>Calgary, Alberta | Director | James Riddell has been a geologist with Paramount Resources Ltd. since 1992 and was appointed in November of 1997 the Corporate Operating Officer of Paramount Resources Ltd., a public company listed on the Toronto Stock Exchange. James Riddell received his Bachelor of Science from the Arizona State University in 1989 and his Masters of Science from the University of Alberta in 1993. | 200,000(5)<br>(4.02%) |
| Tim Tycholis(1) (2)<br>Calgary, Alberta | Director | Mr. Tycholis was Vice- President and a director of Blue Range Resources Corp., an oil and gas company listed on The Toronto Stock Exchange from October 1995 until October 1997. From October of 1997 to today, Mr. Tycholis has been a self- employed entrepreneur. He was President, CEO and a director of Pipestone Petroleums Inc., an oil and gas company listed on The Alberta Stock Exchange, from September 1993 until Pipestone was acquired by Blue Range in October 1995. Mr. Tycholis was a Vice-President of PowerWest Financial Ltd. From October 1989 until August 1993. | 200,000(5)<br>(4.02%) |

| Name and Municipality of Residence | Office | Principal Occupation and Positions During Last Five Years | Number and Percentage of Common Shares Beneficially Owned Before Giving Effect to the Offering(3)(4) |
|---|---|---|---|
| Tim Sanderson Calgary, Alberta | Director<br><br>Also an Officer and Director of Rafna | Mr. Sanderson is a co-founder of TTI and has been the President and a director of TTI since its inception in 1995. Mr. Sanderson is also the Vice President, Sales at Rafna and has held this position since April 1, 1998. Prior thereto, Mr. Sanderson was the western sales representative for Modern Track Machinery for five years. While at Modern Track Machinery, Mr. Sanderson was responsible for managing and developing new and existing accounts in the railway industry. | 807,915(6)<br>(16.23%) |
| Barry Pingel Burlington, Ontario | President and Director of Rafna | Mr. Pingel is a co-founder of TTI and has been a director since 1997. Mr. Pingel is also the President and director of Rafna Industries Ltd. and has held these positions since April 1, 1998. Prior thereto, Mr. Pingel was the general manager for Modern Track Machinery. As general manager, Mr. Pingel was responsible for the restructuring and refocusing of the company. Prior to the position of general manager, Mr. Pingel held the positions of Canadian sales manager (5 years) and regional sales manager (4 years) with Modern Track Machinery. | 800,015(6)<br>(16.08%) |

**Notes:**

(1) Directors who are members of the Corporation's Acquisition Committee. See "Use of Proceeds-The Acquisition Committee".

(2) Directors who are members of the Corporation's audit committee. The general function of the audit committee is to review the overall audit plan and the Corporation's system of internal controls, to review the results of the external audit and to resolve any potential dispute with the Corporation's auditors.

(3) Assuming that no Units are purchased under this Offering and excluding the exercise of any Warrants acquired pursuant to this Offering.

(4) Does not include Common Shares issuable upon the exercise of stock options.

(5) These shares are held in escrow pursuant to an escrow agreement dated April 27, 1998. See "Escrowed Securities".

(6) These shares are held in escrow pursuant to an escrow agreement dated February 1, 1999. See "Escrowed Securities".

**Aggregate Ownership of Voting Shares**

As at the date hereof, the directors, officers and key employees of the Corporation, as a group, own beneficially, directly or indirectly, or exercise control or direction over 2,430,230 Common Shares or 48.83% of the issued and outstanding Common Shares.

Upon the completion of the Offering, the directors, officers and key employees of the Corporation, as a group, own beneficially, directly or indirectly or exercise control or direction over 2,430,230 Common Shares or 39.34% (Minimum Offering) and (Maximum Offering) of the then issued and outstanding Common Shares, assuming that no Units are purchased by any of them under this Offering.

## MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATING RESULTS

Management's discussion and analysis focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties relating to the railway industry. This discussion should not be considered all inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other elements may or may not occur which would affect the Corporation in the future. In order to obtain the best overall perspective, this discussion should be read in conjunction with the material contained in other parts of this prospectus and with the financial statements and related notes contained herein.

**Corporate Background**

The Corporation was formed to consolidate railway maintenance and supply companies.

Management believes the railway maintenance and construction industry is fragmented and there are several opportunities for the Corporation to acquire privately owned businesses and refocus them to meet the changing needs of the North American railways. To date, management of the Corporation has identified and acquired Rafna Industries Ltd., a company based in Montreal, Quebec. While the Corporation's current mandate is to identify other companies with significant growth prospects, its current operations are carried out through Rafna. As such, the majority of the discussion below will be in the context of the operations of Rafna.

**Results of Operations**:

| Item | Six Months Ended June 30, 1999 | Nine Months Ended December 31, 1998(1) | Twelve Months Ended March 31, 1998(2) |
|---|---|---|---|
| Sales | $2,776,333 | $4,236,376 | $3,736,932 |
| Cost of sales | $1,443,055 | $2,534,061 | $2,109,303 |
| Gross profit | $1,333,278 | $1,702,315 | $1,627,629 |
| Expenses - net | $575,870 | $746,837 | $1,033,188 |
| Depreciation/Amortization | $101,591 | $170,734 | $44,987 |
| Pretax income | $655,817 | $784,744 | $549,454 |

**Notes:**

(1) These results reflect nine months of operations of Rafna from April 1, 1998 to December 31, 1998.

(2) These results reflect twelve months of operations of Rafna. These results are prior to the acquisition of Rafna by the Corporation.

**Sales**

Prior to being acquired by TTI on April 1, 1998, Rafna marketed its rail gear solely in Canada. After the acquisition, the Corporation's management began the process of marketing its rail gear into the U.S. and other markets. The increase in sales to $4,236,376 for the nine months ended December 31, 1998 from $3,736,932 for the twelve months ended March 31, 1998 is a result of the marketing efforts into other markets and specifically into the United States. Additional sales growth from the U.S. market depends on the Corporation maintaining a significant marketing presence in the United States, the ability of the Corporation to provide quality rail gear on time and the favourable results of rail gear units currently on test with large rail carrier companies in the United States.

**Cost of Sales/Gross Profit**

Cost of sales has increased proportionately with the increased level of sales. Gross profit as a percentage of sales were 44% for the twelve months ended March 31, 1998 ($1,627,629), 40% for the nine months ended December 31, 1998 ($1,702,315) and 48% for the six months ended June 30, 1999 ($1,333,278).

Total margins in percentage terms decreased from $1,627,629 for the twelve months ended March 31, 1998 to $1,702,315 for the nine months ended December 31, 1998 due mainly to transitional issues related to the purchase of Rafna. Specifically, gross margins fell after the purchase of Rafna on April 1, 1998 due to the transition of management and more importantly due to the transition of the business from a privately owned regional supplier to a North American supplier of rail gear.

The increase in margins from $1,702,315 for the nine months ended December 31, 1998 to $1,333,278 for the six months ended June 30, 1999 is due mainly for two reasons. First, the completion of the Corporation's plant expansion in April of 1999. The Corporation believes the plant is operating more efficiently with triple the capacity and fewer employees due to the addition of automated equipment. Second, with increased output the plant is realizing economies of scale with suppliers.

**Expenses**

Expenses at Rafna have increased from $746,837 for the nine months ended December 31, 1998 to $575,870 for the six months ended June 30, 1999 mainly for the following reasons. First, as part of the expansion, the Corporation entered into an operating lease to acquire certain equipment. Second, the cost of the lease is expensed monthly in the income statement. As well, Rafna expanded its current facility. The expansion costs were incurred by the owners of the building and Rafna's monthly rent increased. Finally, Rafna hired two additional sales staff.

**Depreciation and Amortization**

Depreciation and amortization increased from $44,987 for the twelve months ended March 31, 1998 to $170,734 for the nine months ended December 31, 1998 and $101,591 for the six months ended June 30, 1999 due to the purchase of Rafna and the corresponding increase in asset values and goodwill.

**Forward Looking Statements**

A number of matters discussed in the foregoing Management's Discussion and Analysis are not historical or current facts and deal with potential future circumstances and developments and are forward looking statements within the meaning of applicable securities laws. Such statements are qualified by inherent risks and uncertainties surrounding future expectations generally, and the Corporation's actual results and experience involving anyone or more of the matters set forth in the forward looking statements. Certain of the notable risks and uncertainties are discussed above under the heading "Risks and Uncertainties".

# EXECUTIVE COMPENSATION

## Compensation of Executive Officers

The Corporation presently has two executive officers and five directors. Michael Kohut, the president of the Corporation, is currently paid a salary of $50,000 per year effective February 25, 1999. Prior to February 25, 1999, Michael Kohut's wholly owned company was paid $50,000 for consulting services rendered from January 1998 to February 1999. The Corporation intends to enter into a two year agreement to pay Michael Kohut a salary of $120,000 per year effective November 1, 1999. No other cash compensation, fees, commissions, bonuses or other compensation has been paid to any executive officer of the Corporation since incorporation.

## Compensation of Directors

Nil.

## Summary Compensation Table

The following table sets forth compensation on a consolidated basis awarded or paid to, or earned by, Timothy Sanderson, Barry Pingel, Michael Kohut and Dale Owen during the financial years ended December 31 in each of 1996, 1997 and 1998.

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| | Annual Compensation | | | | Long-Term Compensation: Awards | | Long-Term Compensation: Payouts | |
|---|---|---|---|---|---|---|---|---|
| **Name and Principal Position** | **Year ended Dec. 31** | **Salary ($)** | **Bonus ($)** | **Other Annual Compen-sation** | **Securities Under Options/ SARS Granted (#)** | **Restricted Shares or Restricted Share Units ($)** | **LTIP Payouts ($)** | **All Other Compen-sation ($)** |
| Timothy Sanderson<br>Officer of Rafna and Director of the Corporation | 1998<br>1997<br>1996 | $70,000<br>$Nil<br>$Nil | Nil<br>Nil<br>Nil | Nil<br>Nil<br>Nil | Nil<br>45,000<br>Nil | Nil<br>Nil<br>Nil | Nil<br>Nil<br>Nil | Nil<br>Nil<br>Nil |
| Barry Pingel<br>President and Director of Rafna | 1998<br>1997<br>1996 | $70,000<br>$34,622<br>$Nil | Nil<br>Nil<br>Nil | Nil<br>Nil<br>Nil | Nil<br>25,000<br>Nil | Nil<br>Nil<br>Nil | Nil<br>Nil<br>Nil | Nil<br>Nil<br>Nil |
| Michael Kohut<br>President and Director of the Corporation | 1998<br>1997<br>1996 | $Nil<br>$Nil<br>$Nil | Nil<br>Nil<br>Nil | Nil<br>Nil<br>Nil | 40,000<br>100,000[(1)]<br>Nil | Nil<br>Nil<br>Nil | Nil<br>Nil<br>Nil | Nil<br>Nil<br>Nil |

**Notes:**

(1) The options were granted to MM Capital Corp. as a consultant to the Corporation for services rendered. Michael Kohut is the sole shareholder, director and officer of MM Capital Corp.

**Indebtedness of Directors and Executive Officers**

No directors or executive officers are or have in the past been indebted to the Corporation.

**Options/SARs Grants During The Most Recently Completed Financial Year**

The following table sets forth the stock options and SARs granted to directors and executive officers during the fiscal year ended December 31, 1998.

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| Name and Position | Securities Under Options /SARs Granted (#) | % of Total Options/SARs Granted to Employees in Financial Year | Exercise or Base Price ($/Security) | Market Value of Securities Underlying Options/SARs on the Date of Grant ($/Security) (4) | Expiration Date |
|---|---|---|---|---|---|
| Michael Kohut, President and Director | 40,000 (1) (2) | 100% | $0.20 | N/A | May 25, 2003 |
| James Riddell, Director | 40,000 (1) | 100% | $0.20 | N/A | May 25, 2003 |
| Dale Owen, Secretary and Director | 40,000 (1) | 100% | $0.20 | N/A | May 25, 2003 |
| Tim Tycholis, Director | 40,000 (1) | 100% | $0.20 | N/A | May 25, 2003 |
| Tim Sanderson, Director | 45,000 (3) | 100% | $0.75 | N/A | November 2002 |
| **Total** | **205,000** | | | | |

**Notes:**

(1) These options were granted to the directors of the Corporation prior to the Corporation's listing on the ASE.

(2) MM Capital Corp. was issued 100,000 stock options to purchase Common Shares in its capacity as a consultant to the Corporation. MM Capital Corp. is a corporation controlled by Michael Kohut, the president and a director of the Corporation. These options were granted in TTI prior to the Takeover and exchanged for stock options of the Corporation pursuant to the Takeover. See "Stock Option Plan".

(3) These options were granted in TTI prior to the Takeover and exchanged for stock options of the Corporation pursuant to the Takeover.

(4) There was no public market for the securities underlying the options on the date of the grant.

**Stock Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values**

During the fiscal year ended December 31, 1998, a total of 40,000 options for Common Shares were exercised by officers, directors and employees or the Corporation as follows:

| Name and Position | Number Exercised (#) | Number Unexercised (#) | Net Value Upon Exercise |
|---|---|---|---|
| Bill Lister<br>Past Director | 40,000 | Nil | $72,000 (1) |

**Notes:**

(1) Mr. Lister was granted, in his capacity as a director of the Corporation, an option to purchase 40,000 Common exercisable at a price of $0.20 per Common Share. At the date of exercise, the Corporation's Common Shares were trading at a price of $2.00 per Common Share.

**Stock Option Plan**

The directors and shareholders of the Corporation have adopted a stock option plan (the "Plan") for its directors, officers, consultants and key employees. Pursuant to the Plan, the Board of Directors of the Corporation may allocate non-transferable options to purchase Common Shares of the Corporation to directors, officers and employees of the Corporation and its subsidiaries. The aggregate number of Common Shares to be issued upon exercise of all options granted under the Plan and the aggregate number of Common Shares to be issued to an individual upon exercise of options granted under the Plan shall not exceed the maximum number of Common Shares permitted to be issued under the rules of any stock exchange on which the Common Shares are then listed or other regulatory body having jurisdiction.

The Plan provides that the exercise price of the Common Shares covered by each option shall be determined by the Board of Directors and shall not be less than the price permitted by any stock exchange on which the Common Shares are then listed or by any regulatory body having jurisdiction. The current rules of the ASE limit the number of Common Shares to be issued at 10% of the Corporation's issued and outstanding share total, and in addition, no single optionee may receive options for more than 5% of the Corporation's issued and outstanding Common Shares.

The following stock options have been granted to directors, officers, employees and consultants of the Corporation under the Stock Option Plan.

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| Optionee | Number of Common Shares Under Option | Date of Grant | Exercise Price Per Common Share | Expiry Date |
|---|---|---|---|---|
| Michael Kohut | 40,000 | May 25, 1998 | $0.20 | May 25, 2003 |
| James Riddell | 40,000 | May 25, 1998 | $0.20 | May 25, 2003 |
| Dale Owen | 40,000 | May 25, 1998 | $0.20 | May 25, 2003 |
| Tim Tycholis | 40,000 | May 25, 1998 | $0.20 | May 25, 2003 |
| Tim Sanderson | 45,000 | November 1997 | $0.75 | November 2002 |
| MM Capital Corp. (1) | 100,000 | November 1997 | $0.75 | November 2002 |
| Don Webber | 20,000 | December 1998 | $0.75 | December 31, 2003 |
| Rafna Employees | 50,000 | Various Dates | $0.75 - $1.50 | Various Dates |

**Note:**

(1) A corporation controlled by Michael Kohut, the president and a director of the Corporation. These options were granted to MM Capital Corp. as a consultant to the Corporation.

## INFORMATION CONCERNING GENERAL BODY AND EQUIPMENT LTD.

### Letter of Intent

The Corporation has entered into a non binding letter of intent (the "Letter of Intent") dated July 26, 1999 with Cam Barnfather, Gerald Marcoux, Lee Morrison and Wolfgang Kominski (the "Vendors") to acquire all the issued and outstanding shares of General Body and Equipment Ltd. ("General") for $5.1 million. Based on the Letter of Intent and subsequent discussions, the purchase price is to be paid as $3.056 million in cash and $2,044,000 in Common Shares of the Corporation. The Common Shares to be issued by the Corporation as part of the purchase price are to be issued at a price equal to the lessor of the average fifteen day trading price of the Corporation immediately prior to closing of the purchase and sale or $3.00 per Common Share. The Corporation intends to issue 681,333 Common Shares to the Vendors in the event the Corporation's Common Share trading price is at least $3.00 per Common Share. Based on the Letter of Intent and subsequent discussions, the Corporation may issue up to $500,000 worth of additional Common Shares as part of the purchase price, the amount of the additional Common Shares to be issued to be based upon the income earned in General from November 1, 1998 to October 31, 1999. Under the terms of the Letter of Intent and subject to Regulatory Approval, these Common Shares will be voluntarily escrowed for a period of one year from the closing date of the transaction.

The Letter of Intent is non-binding, and is subject to financing, the finalization of purchase price adjustments, the completion of due diligence and completing a formal purchase and sale agreement.

**General Body & Equipment Ltd.**

General manufactures, installs and services customized truck and trailer bodies. General is based in Western Canada and has facilities located in Edmonton, Calgary, Regina and Saskatoon.

In the opinion of management, the synergies resulting from the General acquisition could enable the Corporation to provide a turnkey service for its Canadian and U.S. customers. That is, the Corporation will manufacture rail gear and General will manufacture truck bodies as well as install and service the Corporation's rail gear.

There is a possibility that the acquisition of General may not occur under the terms described above, if at all. In the event the acquisition of General does not occur for any reason, the funds raised may be used for the acquisition of other businesses by the Corporation and for internal expansion of the Corporation. See "Use of Proceeds".

## USE OF PROCEEDS

**Funds Available**

The estimated net proceeds of approximately $2,700,000, if the Minimum Offering is achieved, and up to $ if the Maximum Offering is achieved, available to the Corporation are comprised of the estimated gross proceeds of this Offering of $3,000,000 (Minimum Offering) up to $ (Maximum Offering) (after deducting the Agent's commission of $225,000 (Minimum Offering) or $ (Maximum Offering), as the case may be, and the estimated expenses of this Offering of $75,000.

In the event that the Agent exercises the Agent's Option, the Corporation will receive an additional $690,000 if we include warrant exercise (Minimum Offering) and up to $ (Maximum Offering) from the issuance of Units, which will be added to the Corporation's working capital. See "Plan of Distribution".

### Principal Purposes

The funds available to the Corporation from this Offering (after payment of commission and expenses) are intended to be expended for the following purposes:

| | Description | Maximum Offering (Cdn. $) | Minimum Offering (Cdn. $) |
|---|---|---|---|
| 1 | Acquisitions(1) | $ | $2,700,000 |
| 2 | Repayment of debt - TD Loan(2) | $ | Nil |
| 3 | Purchase of machinery and equipment | $ | Nil |
| | **TOTAL** | **$** | **$2,700,000** |

**Notes:**

(1) The net proceeds to be used for acquisitions will be held in a separate bank account and used as approved by the Acquisition Committee. The Corporation intends to pursue acquisitions of companies within its industry. The Corporation believes it is in the best interest of the shareholders to acquire companies which can accelerate the Corporation's growth plans.

(2) See "Debt of the Corporation" – Notes 1 and 2.

### The Acquisition Committee

The Board of Directors of the Corporation appointed an Acquisition Committee comprised of Michael Kohut, Tim Tycholis and James Riddell. It was decided by the Board of Directors that the Acquisition Committee should be composed of one related and two independent directors. An independent director is a director who is not an officer of the Corporation. The purpose and responsibility of the Acquisition Committee will be to review and evaluate acquisitions proposed by the management of the Corporation and to provide the Corporation's Board of Directors with its recommendations. The Acquisition Committee's mandate is to evaluate the potential acquisitions on the following criteria: strategic synergies in products and selling processes, management and personnel associated and inherited with the acquisition, the acquisition price, the acquisition's growth potential, and synergies in distribution and sales strategies.

The Corporation will use its best efforts to use the net proceeds of this Offering as described above. While it is the Corporation's current intention to expend the net proceeds of this Offering as set forth above, management will review the Corporation's budget on a regular and timely basis and assess opportunities in the context of its budget.

There may be circumstances where, for sound business reasons, a reallocation of funds may be necessary in order for the Corporation to achieve its stated business objectives.

## CAPITALIZATION

The following table sets forth the capitalization of the Corporation on a consolidated basis both before and after giving effect to this Offering.

| **Share Capital** | **Authorized** | **Outstanding as at June 30, 1999 (audited)** (1) | **Outstanding after giving effect to the Maximum Offering (unaudited)** (2)(3)(4)(5) | **Outstanding after giving effect to the Minimum Offering (unaudited)** (2)(3)(4)(5) |
|---|---|---|---|---|
| Common Shares | Unlimited | $1,285,253 (4,976,442 shares) | $ ( shares) | $3,985,253 (6,176,442 shares) |
| Preferred Shares | Unlimited | Nil | Nil | Nil |
| Warrants (4) | N/A | Nil | | 1,200,000 |
| Debt (6) | N/A | $1,180,745 (7) | (8) | |

**Notes:**

(1) As at June 30, 1999, the Corporation had retained earnings of $679,665.

(2) See "Description of Share Capital" for a general description of the material rights, privileges, restrictions and conditions attached to the Common Shares.

(3) Dollar values are determined after deduction of expenses of issuance of Units pursuant to this Offering.

(4) A total of 375,000 Common Shares are reserved for issuance on exercise of outstanding stock options held by directors, officers, employees and consultants, exercisable at various prices and expiring at various times. See "Stock Options". That number of Units equal to 10% of the number of Units sold are issuable pursuant to the exercise of the Agent's Option at a price of $2.50 per Unit for a period of 24 months following the date of closing of this Offering. See "Stock Options". The Common Shares and Warrants issuable on exercise of the foregoing options are not included in the table above.

(5) A minimum of 1,200,000 Warrants up to a maximum of Warrants are issuable as part of the Units offered under this prospectus. Each whole Warrant entities the holder to acquire one additional Common Share at a price of $3.25 per share for a period of 12 months from the date of closing of this Offering. Upon the exercise of the Agent's option, a minimum of

120,000 Warrants and a maximum of additional Warrants may be issued. See "Plan of Distribution" and "Description of Share Capital - Warrants."

(6) A total of 163,523 Common Shares are reserved for issuance on conversion of the debt under the letter agreement entered into by the Corporation dated November 25, 1997. See "Debt of the Corporation".

(7) See "Debt of the Corporation".

(8) Assumes that of the net proceeds will repay debts of the Corporation. See "Use of Proceeds".

## DEBT OF THE CORPORATION

The following table sets forth the debt of the Corporation on a consolidated basis:

| Nature of Debt | Amount of Debt as of June 30, 1999 | Interest Rate | Repayment Schedule |
|---|---|---|---|
| Demand Loan [1] | $443,057 | Bank prime plus 1.5% | Three year term payable on demand |
| Letter Agreement[2] | $122,642 | 4% per annum | See Note 2 below |
| Operating Loan[3] | $160,000 | Bank prime plus 1% | On demand |
| Operating Lease[4] | $455,046 | 7.56% per annum | Monthly, in arrears, based on amount drawn (Fixed rate payment is $8,765.51 plus GST and taxes, based on asset cost, term and rate specified) |
| **TOTAL DEBT** | **$1,180,745** | | |

**Notes:**

(1) A Canadian chartered bank provided the Corporation with a loan of $850,000. This loan was used to partially pay for the acquisition of Rafina. Under the terms of the loan, the Corporation is required to pay $23,611 per month in principal payments and interest at bank prime rate plus 1.25% per annum. The loan is payable upon demand. The loan is secured by a general security agreement representing a first charge on all present and after property acquired as well as by an assignment of fire insurance.

(2) This Letter Agreement is unsecured and subordinated, to the right of payment of the demand loan (see Note 1). This Letter Agreement allows for the creditor to convert the debt at the holders option into Common Shares of the Corporation at any time in perpetuity at a price of $0.75 per common share. The agreement bears interest at 4% per annum should no part of the debt be exercised for payment or converted into Common Shares within one year of this date of issue. The debt has no fixed repayment date. The issue date of the agreement was November 25, 1997. During the year 1998, the creditors forgave one half of the original amount of the debt owing, in the amount of $122,642.

(3) A Canadian chartered bank provided the Corporation with an operating loan for working capital. The maximum available under the loan is $400,000. The loan bears interest at the bank prime rate plus 1%. The loan is secured by a general security agreement representing a first charge on all present and after property acquired as well as by an assignment of fire insurance.

(4) A Canadian chartered bank provided the Corporation with an operating lease in the amount of $490,000 of which, as of the date hereof, $455,046 is outstanding. This loan was used to finance the acquisition of equipment. Under the terms of the loan, the Corporation is required to pay a fixed interest rate of 7.56% per annum. The loan is repaid monthly on arrears based on the amount drawn with a fixed rate payment of $8,765.51 plus GST and taxes. The loan is secured by an ownership title in the leased equipment and a registered security interest.

## DESCRIPTION OF SHARE CAPITAL

### Common Shares

The Corporation is authorized to issue an unlimited number of Common Shares without nominal or par value of which as at the date hereof, 4,976,442 Common Shares are issued and outstanding. The holders of the Common Shares are entitled to dividends as and when declared by the Board of Directors, to one vote per share at meetings of common shareholders of the Corporation and, upon liquidation, to receive such assets of the Corporation as are distributable to the holders of the Common Shares. All of the outstanding Common Shares are fully paid and non-assessable.

### Preferred Shares

The Corporation is authorized to issue an unlimited number of preferred shares (the "Preferred Shares"). The Preferred Shares may be issued from time to time in one or more series, each consisting of a number of Preferred Shares as determined by the board of directors of the Corporation who also may fix the designations, rights, privileges, restrictions and conditions attaching to the shares of each series of Preferred Shares. There are no Preferred Shares issued and outstanding. The Preferred Shares of each series shall, with respect to payment of dividends and distribution of assets in the event of voluntary or involuntary liquidation, dissolution or winding-up of the Corporation or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding-up its affairs, rank on a parity with the Preferred Shares of every other series and shall be entitled to preference over the Common Shares and the shares of any other class ranking junior to the Preferred Shares.

**Warrants**

The Warrants will be issued pursuant to a purchase warrant indenture ("Warrant Indenture") to be entered into between the Corporation and Montreal Trust Company of Canada dated ( , 1999). Each whole Warrant entitles the holder to subscribe for and purchase one Common Share at a price of $3.25 per Common Share, exercisable on or before 4:30 p.m. (Calgary time) on that date which is one year from the date of closing of the Offering (the "Expiry Time"), subject to the adjustments set out in the Warrant Indenture. Warrants may be exercised by surrendering, after the date the Warrants are issued and before the Expiry Time, the Warrants with a duly completed and executed subscription together with a certified cheque, bank draft or money order in lawful money of Canada payable to or to the order of the Corporation in an amount equal to the number of Common Shares issuable upon the exercise of the Warrants multiplied by $3.25, to Montreal Trust Company of Canada at its principal office in Calgary, Alberta. Immediately after the Expiry Time, all rights under the Warrants shall cease and terminate and such Warrants shall be void and of no further force or effect.

The Warrant Indenture provides that the Corporation may purchase, by private contract or otherwise, all or any portion of the Warrants and any Warrants so acquired shall be cancelled and may not be reissued. The Warrant Indenture also provides that the exercise price per Common Share is subject to adjustment in certain events, including:

(a) the subdivision or consolidation of the Common Shares or the issue of Common Shares to all or substantially all of the holders of Common Shares by way of a stock dividend other than an issue of Common Shares to such holders as a "dividend paid in the ordinary course" (as defined in the Warrant Indenture);

(b) the issue or rights or warrants to all or substantially all the holders of Common Shares entitling them within a period of no longer than 45 days after such date of issue to acquire Common Shares (or securities convertible or exchangeable into Common Shares) at less than 95% of the "Current Market Price" (as defined in the Warrant Indenture) of the Common Shares; and

(c) the distribution to all or substantially all the holders of Common Shares of: (i) shares of any other class whether of the Corporation or any other corporation; (ii) of rights, options or warrants (other than those referred to above); or (iii) evidences of indebtedness or of assets (excluding "dividends paid in the ordinary course").

No adjustment to the exercise price will be required to be made: (a) unless the cumulative effect of such adjustment or adjustments would change the exercise price by at least 1%; or (b) in respect of the issue of Common Shares pursuant to: (i) the exercise of Warrants; or (ii) the issuance of Common Shares under the Corporation's incentive plans.

To the extent that the holder of a Warrant would otherwise be entitled to purchase a fraction of a Common Share, such right may be exercised only in combination with other rights which in the aggregate entitle the holder to purchase a whole number of Common Shares. Holders of Warrants will not be entitled to any cash payment or other compensation in respect of fractional entitlements. Holders of Warrants do not have any voting or preemptive rights or any other rights as shareholders of the Corporation.

## PRINCIPAL HOLDERS OF VOTING SHARES

The following table sets forth the shareholdings of those persons who own of record or are known to the Corporation to own beneficially, directly or indirectly, or exercise control or direction over, more than 10% of the issued and outstanding Common Shares both before and after giving effect to this Offering.

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| Name, Title and Position | Type of Ownership | Number and Percentage of Shares of the Corporation Held or Controlled Before Giving effect this Offering | Number and Percentage of Shares of the Corporation Held or Controlled After Giving Effect to the Maximum Offering(2)(3) | Number and Percentage of Shares of the Corporation Held or Controlled After Giving Effect to the Minimum Offering(2)(3) |
|---|---|---|---|---|
| Tim Sanderson, Director of the Corporation | Of record and beneficially | 807,915(1) (16.23%) | 807,915(1) ( %) | 807,915(1) (13.08%) |
| Barry Pingel, President and Director of Rafna | Of record and beneficially | 800,015(1) (16.08%) | 800,015(1) ( %) | 800,015(1) (12.95%) |

**Notes:**

(1) A portion of these shares are held in escrow pursuant to an escrow agreement dated February 1, 1999. See "Escrowed Securities".

(2) Does not include Common Shares issuable upon the exercise of stock options.

(3) Assuming that no Units are purchased under this Offering and excluding the exercise of any Warrants acquired pursuant to this Offering.

## PRIOR SALES OF SECURITIES

Since the date of incorporation of the Corporation, 4,976,442 Common Shares have been issued as follows:

| Date | Description | Number of Common Shares | Aggregate Issue Price | Consideration Received |
|---|---|---|---|---|
| June 30, 1998 | Initial Public Offering | 2,000,000 [(1)] | $300,000 | cash |
| July 13, 1998 | Agents Option | 50,000 | $10,000 | cash |
| Feb. 25, 1999 | Takeover [(2)] | 2,836,442 [(3)] | $2,127,332[(4)] | shares |
| Mar. 12, 1999 | Agents Option | 50,000 | $10,000 | cash |
| June 16, 1999 | Directors option | 40,000 | $8,000 | cash |
| | **Total** | **4,976,442** | **$2,455,332** | |

**Notes:**

(1) 1,000,000 common shares issued prior to June 17, 1998, are held in escrow. See "Escrowed Securities".

(2) The Corporation completed its major transaction as outlined in its information circular dated December 1, 1998 and approved by the shareholders dated January25, 1999. The transaction consisted of the takeover of Transportation Technologies Inc. ("TTI") and its wholly owned subsidiary Rafna Industries Ltd. ("Rafna"). The transaction was a share for share exchange and was approved by the ASE effective February 25, 1999.

(3) Of these shares, 1,332,562 are held in escrow. See "Escrowed Securities of the Corporation".

(4) $179,914 was included in share capital with respect to the Takeover based on the reverse takeover accounting guidelines. See the Corporation's financial statements of June 30, 1999 - note #9.

## TRADING HISTORY

The Common Shares were listed and posted for trading on the ASE on June 30, 1998, and are trading thereon under the trading symbol "GBI". The following table sets forth the particulars of the trading of the Common Shares since October of 1998.

| Month Ending | High | Low | Volume |
|---|---|---|---|
| October, 1998 | $1.62 | $1.00 | 41,800 |
| November, 1998 | $2.00 | $1.50 | 36,300 |
| December, 1998 | $2.65 | $2.85 | 55,900 |
| January, 1999 | $2.65 | $2.15 | 86,367 |
| February, 1999 | $2.45 | $2.00 | 21,700 |
| March, 1999 | $2.50 | $2.00 | 84,200 |
| April, 1999 | $2.35 | $1.80 | 75,821 |
| May, 1999 | $ 2.25 | $2.00 | 41,000 |
| June, 1999 | $2.50 | $2.00 | 132,333 |
| July, 1999 | $3.00 | $2.30 | 71,700 |
| August, 1999 | $3.10 | $2.75 | 74,500 |
| September, 1999 | $2.90 | $2.40 | 8,879 |
| October, 1999 | $ | $ | |

The closing trading price of the Common Shares on October 25, 1999 was $2.60.

## DIVIDEND RECORD AND POLICY

To date, the Corporation has not paid dividends on its Common Shares. The intention of the Corporation is to retain earnings to finance future growth and accordingly the Corporation has no present intention to pay dividends on its Common Shares.

## ESCROWED SECURITIES

Pursuant to two escrow agreements dated April 27, 1998 and February 1, 1999 (the "Escrow Agreements") among the Corporation, the Montreal Trust Company of Canada and certain holders of Common Shares of the Corporation (the "Escrowed Shareholders"), the Escrowed Shareholders have deposited an aggregate of 2,332,562 Common Shares of the Corporation (the "Escrowed Shares") with the Montreal Trust Company of Canada to be held in escrow pursuant to the terms and conditions of the Escrow Agreements. The Escrow Agreements provide that the Escrowed Shares may not be traded, released, transferred, or dealt with in any manner without the consent of the

Executive Director of the Commission. The Escrow Agreements provide that upon the Corporation completing the major transaction, the Escrowed Shares are released as to one third on each of the first, second and third anniversary dates of the completion of the Major Transaction on February 25, 1999.

The following table outlines the number of securities of the Corporation deposited in escrow with the Montreal Trust Company of Canada as at the date of this prospectus.

| | **Number of Securities Held in Escrow** | | **Percentage of Class of Securities held in Escrow** | | |
|---|---|---|---|---|---|
| **Designation of Class of Securities** | **Before Offering** | **After Offering** | **Before Offering** | **After Minimum Offering** | **After Maximum Offering** |
| Common Shares | 2,332,562 | 2,332,562 | 46.87% | 37.77% | % |

## INTERESTS OF INSIDERS IN MATERIAL TRANSACTIONS

Other than as disclosed herein, management of the Corporation is not aware of any material interest in any matter to be acted upon or any material transaction, direct or indirect, of any director or senior officer of the Corporation, or of any person beneficially owning, directly or indirectly, more than 10% of the Corporation's voting securities or any associate or affiliate thereof.

## PLAN OF DISTRIBUTION

Pursuant to an agency agreement dated , 1999 (the "Agency Agreement") between the Corporation and Acumen Capital Finance Partners Limited (the "Agent"), the Agent has been appointed agent of the Corporation to offer for sale to the public the Units offered herein, subject to the terms and conditions of the Agency Agreement. The Agent will receive a commission equal to 7.5% of the gross proceeds of the Offering, being an aggregate of $225,000 if minimum subscriptions are received and up to $ if maximum subscriptions are received. In addition the Corporation will be responsible for all out-of-pocket costs incurred by the Agent including legal fees, regardless of whether or not the Offering is completed, and has paid the Agent a non-refundable fee of $15,000 (plus GST). The Corporation has also agreed to grant to the Agent, conditional upon the closing of the Offering, a non-transferable option to acquire between 120,000 Units (Minimum Offering) and an aggregate of Units (Maximum Offering) (or an amount equal to 10% of the number of Units sold hereunder) at an exercise price of $2.50 per Unit which option shall expire 2 years from the date of closing of this Offering (the "Agent's Option"). The Agent has agreed to use its best efforts to secure subscriptions for the Units offered hereunder on behalf of the Corporation. The obligations of the Agent under the Agency Agreement may be terminated on the basis of its assessment of the financial markets and upon the occurrence of certain stated events, including any material adverse changes in the business or financial condition of the Corporation.

This Offering is not underwritten and is subject to a total minimum subscription of $3,000,000 which must be raised within 90 days of the issuance of a receipt for the filing of a final prospectus or such other time as may be authorized by the appropriate authority and agreed to by the Agent (the "Expiry of the Offering"). If the minimum subscription is not raised by the Expiry of the Offering, subscription monies will be returned to subscribers without interest or deduction.

The Agent hereby conditionally offers, as agent, on behalf of the Corporation a minimum of 1,200,000 Units ($3,000,000) up to a maximum of Units ($ ) on a "best efforts" basis, subject to prior sale if, as and when issued. Subscriptions may be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice.

## INCOME TAX CONSIDERATIONS

In the opinion of Ballem MacInnes, counsel to the Corporation, ("Counsel") the following is a fair and adequate summary of the principal Canadian federal income tax considerations generally applicable to holders of Common Shares and Warrants who are, or are deemed to be, resident in Canada, who deal at arms' length with the Corporation and who hold such securities as capital property, all within the meaning of the *Income Tax Act* (Canada) (the "Tax Act"). The Common Shares and Warrants will generally be considered capital property to the holder thereof unless either the holder holds such securities in the course of carrying on a business or the holder has acquired the securities in a transaction or transactions considered to be an adventure in the nature of trade. In certain circumstances, Common Shares which would not otherwise qualify as capital property to a subscriber will be deemed to so qualify if the subscriber makes an irrevocable election as permitted by subsection 39(4) of the Tax Act in respect of all "Canadian securities" (within the meaning of the Tax Act) owned by such subscriber.

This summary is based upon the current provisions of the Tax Act, the regulations thereunder (the "Regulations"), Counsel's understanding of the current published administrative practises of Revenue Canada, Customs, Excise and Taxation ("Revenue Canada") and proposed amendments to the Tax Act and the Regulations publicly announced by the Minister of Finance prior to the date hereof (the "Proposals"). This summary assumes that the Proposals will be enacted as proposed but does not take into account or anticipate any other changes in law, whether by way of judicial, legislative or legislation considerations. No assurances can be given that the Proposals will be enacted as proposed or that legislative, judicial or administrative changes will not modify or change the statements expressed herein.

**The following discussion of the income tax considerations is of a general nature only, is not exhaustive of all the income tax considerations and is not intended to constitute income tax advise to any particular Subscriber. Accordingly, Subscribers should consult their own income tax advisers with respect to the Canadian federal income tax consequences which will result from an investment in Common Shares and Warrants.**

### Per Unit Allocation of Purchase Price

The price of each Unit must be allocated on a reasonable basis between the Common Shares and the Warrants that form the Unit. Revenue Canada has taken the position that the allocation must be the same for the Corporation and the Subscriber. The Corporation will allocate $2.50 of the Unit offering price to the Common Shares ($2.50 per Common Share) and $0.00 of the Unit offering price to the Warrants. This allocation is considered by the Corporation to be reasonable, however, such allocation will not be binding on Revenue Canada.

### Exercise of Warrants

The exercise of a Warrant by a subscriber will be deemed not to be a disposition of property for purposes of the Tax Act and the cost of the Common Shares acquired on the exercise of the Warrant will be deemed to be the cost of the Common Shares acquired in such circumstances.

## ELIGIBILITY FOR INVESTMENT

In the opinion of Ballem MacInnes, counsel to the Corporation, provided that the Common Shares are listed on a recognized Canadian stock exchange and continuously thereafter, the Common Shares and Warrants purchased by an investor will, as of the date of Closing and thereafter, be qualified investments under the *Income Tax Act* (Canada) for trusts governed by a registered retirement savings plan.

## DILUTION

The Offering price of $2.50 per Unit exceeds the net tangible book value as at June 30, 1999 (audited) per Common Share after giving effect to the Offering by $ or % (Maximum Offering) or by $1.70 or 68% (Minimum Offering).

The following table sets forth the calculation of the dilution per Common Share.

| | Maximum Offering | Maximum Offering Per Share | Minimum Offering | Minimum Offering Per Share |
|---|---|---|---|---|
| Offering Price | | | $3,000,000 | $2.50 |
| Net book value before Offering | | | $1,964,918 | $0.39 |
| Net book value attributable to this Offering[1] | | | $3,000,000 | $2.50 |
| Net book value after giving effect to this Offering[2] | | | $4,964,918 | $0.80 |
| Dilution to Subscribers | | | $2,035,383 | $1.70 |
| Percentage of dilution in relation to the Offering | | | 68% | 68% |

**Notes:**

(1) Calculation does not include the deduction of commissions payable to the Agent and the estimated expenses of this Offering.

(2) After the Offering, there will be 6,176,442 Common Shares (Minimum Offering) and up to Common Shares (Maximum Offering) issued and outstanding.

## MATERIAL CONTRACTS

Since incorporation, neither the Corporation, Rafna nor TTI has entered into any contracts material to subscribers of the Units, other than as follows:

1. An Escrow Agreement dated April 27th, 1998, among the Corporation, Montreal Trust Company of Canada and certain holders of common shares of the Corporation. See “Escrowed Securities of the Corporation”.

2. An Escrow Agreement dated February 1, 1999 among the Corporation, Montreal Trust Company of Canada and certain holders of common shares of the Corporation. See “Escrowed Securities of the Corporation”.

3. Share Purchase Agreement dated as of May 1, 1998, but effective March 31, 1998, among Rafna, TTI, Tim Sanderson, Barry Pingel, Gordon Frail, Katherine Frail, Deborah Frail and Carolyn Frail.

4. Non-Competition Agreement dated May 1, 1998 among Gordon Frail, Rafna and TTI.

5. Demand Loan with The Toronto Dominion Bank.

6. Employment Agreement with Deborah Frail dated May 1, 1998.

7. Non-Binding Letter of Intent dated July 26, 1999 between the Vendors and the Corporation.

8. Agency Agreement dated between the Corporation and the Agent.

9. Warrant Indenture dated between the Corporation and the Montreal Trust Company of Canada to be dated upon the Closing of the Offering.

10. Employment Agreement dated between the Corporation and Michael Kohut.

Copies of the above contracts may be inspected during normal business hours at the head office of the Corporation located at 450, 444 - 5th Avenue SW, Calgary, Alberta, at the offices of Ballem MacInnes, Barristers and Solicitors, 1800, 350 7th Avenue SW, Calgary, Alberta, T2P 3N9, and at the offices of the Alberta Securities Commission 410, 300 5th Avenue S.W., Calgary, Alberta, T2P 3C4, during the course of distribution and for a period of 30 days thereafter.

## RISK FACTORS

**Investment in the Units offered under this prospectus involves a significant degree of risk. Prospective investors should carefully review the following factors, together with other information contained elsewhere in this prospectus.**

### Limited Financial Resources

The financial resources of the Corporation are not significant, particularly in relation to its competitors. The Corporation's ability to fully exploit the opportunities which it is presented may be dependent upon their ability to obtain additional financing either by debt, equity or other means. There is no guarantee that additional funding will be available.

### Dividends

The Corporation has not paid any dividends to date, and the Corporation does not intend to pay dividends in the foreseeable future. See "Dividend Record and Policy".

**Fluctuating Exchange Rates**

A significant portion of the Corporation's projected revenues and expenses may be denominated in U.S. dollars, and would therefore be subject to exchange rate fluctuations. Exchange rates are determined by market factors beyond the control of the Corporation and may vary substantially and have a material adverse effect on the Corporation's results of operation.

**Reliance on Management**

The success of the business of the Corporation is contingent on the judgment and expertise of the directors and officers of the Corporation. Persons who are not willing to rely on the expertise of the directors and officers of the Corporation should not invest in this Offering.

**Dependence on Key Personnel**

The business of the Corporation at this time is substantially dependent on the services of certain key personnel. The Corporation does not currently maintain "key man" insurance for any of its key personnel. The loss of their services could have a material adverse effect on the business of the Corporation. The success of the Corporation and its business strategy depends, to a degree, upon the skill and efforts of its management and to its ability to attract and retain qualified management personnel. The Corporation's future expansion plans will also be dependent upon its ability to hire and retain suitably qualified and capable sales representatives to act on its behalf with respect to the securing of new accounts. The Corporation's ability to acquire appropriately skilled representatives who will be able to achieve the Corporation's sales objectives remains uncertain.

**Use of Proceeds**

A significant portion of the net proceeds of this Offering will be deposited in a separate bank account and used for acquisitions as approved by the Corporation's Acquisition Committee. Consequently, certain risk factors are inherent in such a use of proceeds. There can be no assurance that the criteria established for the use of these proceeds will be satisfied.

**Dilution**

Subscribers will suffer immediate dilution or \$ per Common Share or % (Maximum Offering) or by \$1.70 per Common Share or 68% (Minimum Offering) with respect to the offering price per Unit compared to the net book value per Common Share. See "Dilution".

## Competition

The Corporation is subject to competition from companies with a broader range of products, greater financial resources and larger marketing capabilities. There can be no assurance that the Corporation will be able to continue to compete successfully with existing competitors or will be able to compete successfully with new competition.

## Product Supply

Rafna has been and may continue to remain reliant upon third party contractors to provide products and services to produce its product and services. The Corporation 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 Corporation may be limited.

## Proprietary Rights

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

## Dependence on Customers

Demand for the Corporation's rail gear depends primarily on the level of spending by the major railways. Demand for the Corporation's products are potentially characterized by large one time orders. The success of the Corporation is directly related to the strength of its relationships with and the economic success of a small number of its larger customers. Should the relationships of the Corporation with any of its major customers become strained or the profitability of those customers become negatively affected, the profitability of the Corporation may be impacted.

## Insurance

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

## Market for Securities

Prior to this offering, there was no public market for the Warrants, and there can be no assurance that an active market for any of the Corporation's securities will develop or be sustained after the completion of this Offering. The Offering price has been determined by negotiations between the Corporation and the Agent. Factors such as the Corporation's financial results, general industry conditions, overall economic and financial markets could cause the price of Corporation's securities to fluctuate.

**Year 2000**

There are risks associated with the transition of information into the year 2000. See "Year 2000 Implications".

**Future Growth**

The Corporation may be subject to growth related risks, including capacity constraints and pressure on its internal systems, controls, including quality controls. The Corporation's ability to manage its growth effectively will require it to continue to hire and train qualified sales representatives, to implement and improve its operational and financial systems and to manage and expand its offices. The inability of the Corporation to deal with its growth could have a material adverse impact on its business, operations and prospects.

**Risks Associated With Product Returns**

Consistent with industry practice, the Corporation allows customers to return products for warranty repair or replacement or credit. Although the Corporation will provide allowances for anticipated returns, and believes that the policies of the Corporation 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 will not have a material adverse effect on future operating results. If any of the products distributed by the Corporation prove defective, the Corporation 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 the Corporation to incur significant expenses and adversely affect the reputation of the Corporation and its products.

**Management Information System**

The Corporation will rely upon the accuracy and proper utilization of a management information system to provide timely distribution services and to track properly its financial information. The occurrence of a significant system failure could have a material adverse effect on the Corporation's operating and financial results. See "Year 2000 Implications".

**Other Risks**

Subscribers must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation. The success of the Corporation is dependent upon its personnel and key consultants. The unexpected loss or departure of any of the Corporation's key officers, employees or consultants could be detrimental to the future operations of the Corporation. The success of the Corporation's business will depend, in part, upon the Corporation's ability to attract and retain qualified personnel as they are needed, including the retention of its Chief Executive Officer. There can be no assurance that the Corporation will be able to engage the services of such personnel or retain its current personnel. With the exception of Michael Kohut and Tim Sanderson, the directors and officers of the Corporation will only devote part of their time to the Corporation and are involved with a number of other ventures which may give rise to conflicts of interest. The Corporation does not, as of the date hereof, have a written employment agreement with Mr. Sanderson or Mr. Pingel.

## PROMOTERS

Michael Kohut, Dale Owen, James Riddell, Tim Tycholis and Tim Sanderson may be considered to be the promoters of the Corporation in that they took the initiative in founding and organizing, or substantially re-organizing, the Corporation. Each of these individuals is a director of the Corporation.

## AUDITOR, REGISTRAR AND TRANSFER AGENT

The auditors of the Corporation are Hudson & Company, Chartered Accountants, 600, 1015 - 4th Street SW, Calgary, Alberta, T2R 1J4.

Montreal Trust Company of Canada, through its office at 600, 530 - 8th Avenue SW, Calgary, Alberta, T2P 3S8, is the Transfer Agent and Registrar of the Corporation.

## CONFLICTS

Certain directors of the Corporation are associated with other reporting issuers which may give rise to conflicts of interest. In accordance with the *Business Corporations Act* (Alberta), directors who have a material interest in any person who is a party to a material contract or a proposed material contract with the Corporation are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the Corporation. Some of the directors of the Corporation have either other employment or other business or time restrictions placed on them and accordingly, these directors of the Corporation will only be able to devote part of their time to the affairs of the Corporation. See "Directors and Officers".

## YEAR 2000 IMPLICATIONS

The Alberta Stock Exchange has recently adopted a policy requiring that all issuers make disclosure to shareholders and investors regarding the material implications of the year 2000 century change on the issuer own operations. The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 dates as 1900 or some other date, resulting in errors when information using year 2000 dates are processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect the Corporation's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Corporation, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved. The Board of Directors of the Corporation cannot determine at this time whether the year 2000 century change will have any material impact on its operations and /or information systems. The Corporation may have a number of industry partners whose computer systems may or may not be adequately updated to account for any potential year 2000 problems.

## LEGAL MATTERS

Certain legal matters relating to this Offering will be passed upon on behalf of the Corporation by Ballem MacInnes, Barristers and Solicitors, of Calgary, Alberta, and on behalf of the Agent by Burstall Ward, Barristers and Solicitors, of Calgary, Alberta.

## PURCHASERS' STATUTORY RIGHTS

Securities legislation in several of the provinces provides purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the applicable province. The purchaser should refer to the securities legislation of the province in which the purchaser resides for the particulars of these rights or consult with a legal advisor.

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**GLOBAL RAILWAY INDUSTRIES LTD.**
**FINANCIAL STATEMENTS**

**GLOBAL RAILWAY INDUSTRIES LTD.**
**(formerly RMN Technologies Inc.)**

**FINANCIAL STATEMENTS**

**JUNE 30, 1999**

AUDITORS' REPORT

To the Shareholder
Global Railway Industries Ltd. (formerly RMN Technologies Inc.)

We have audited the consolidated balance sheets of **Global Railway Industries Ltd. (formerly RMN Technologies Inc.)** as at December 31, 1998 and June 30, 1999 and the consolidated statements of earnings, and retained earnings and cash flows for the periods then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

Except as explained in the following paragraph, we conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Because we were appointed auditors of the company's operating subsidiary after December 31, 1998, we were unable to observe the counting of physical inventories at the beginning and at the end of that period and we were unable to satisfy ourselves concerning ending inventory quantities by alternative means. Also, because no complete inventory listing was available as at December 31, 1998, and we were unable to satisfy ourselves as to the proper valuation of ending inventories. Since ending inventories at December 31, 1998 enter into the determination of the results of operations and cash flows, we were unable to determine whether adjustments to retained earnings, cost of sales, income taxes, net earnings for the period and cash flows from operating activities might have been necessary.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to examine opening and ending inventory quantities and verify the valuation of ending inventories as described in the preceding paragraph, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1998 and June 30, 1999 and the results of its operations and its cash flows for the periods then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
September 8, 1999 except as to Note 5
which is as of ______________.

Hudson & Company
Chartered Accountants

**GLOBAL RAILWAY INDUSTRIES LTD.**
**(formerly RMN Technologies Inc.)**

CONSOLIDATED BALANCE SHEETS

| | June 30 1999 | December 31 1998 |
|---|---|---|
| **ASSETS** | | |
| CURRENT | | |
| Cash | $ 174,910 | $ 106,750 |
| Accounts receivable | 786,287 | 656,112 |
| Inventories | 990,267 | 550,936 |
| Prepaids | 131,908 | 4,439 |
| Current portion of long-term receivable | 17,926 | - |
| | 2,101,298 | 1,318,237 |
| LONG-TERM RECEIVABLE (Note 4) | 70,082 | - |
| MACHINERY DEPOSIT (Note 14(b)) | 52,500 | - |
| CAPITAL ASSETS (Note 5) | 441,792 | 443,543 |
| GOODWILL | 849,933 | 880,833 |
| | $3,515,605 | $2,642,613 |
| **LIABILITIES** | | |
| CURRENT | | |
| Operating loan (Note 6) | $ 160,000 | $ 280,000 |
| Accounts payable | 684,062 | 300,781 |
| Income taxes payable | 132,116 | 47,566 |
| Current portion of long-term debt | 283,332 | 283,332 |
| | 1,259,510 | 911,679 |
| LONG-TERM DEBT (Note 7) | 159,725 | 301,391 |
| CONVERTIBLE DEBENTURE (Note 8) | 122,642 | 122,642 |
| DEFERRED INCOME TAXES | 8,810 | 5,676 |
| | 1,550,687 | 1,341,388 |
| **SHAREHOLDERS' EQUITY** | | |
| SHARE CAPITAL (Note 9) | 1,285,253 | 1,087,339 |
| RETAINED EARNINGS | 679,665 | 213,886 |
| | 1,964,918 | 1,301,225 |
| | $3,515,605 | $2,642,613 |

Commitments (Note 14)
Subsequent event (Note 15)

APPROVED ON BEHALF OF THE BOARD:

*"Signed"*, Director.
Michael Kohut
*"Signed"*, Director.
Dale Owen

**GLOBAL RAILWAY INDUSTRIES LTD.**
**(formerly RMN Technologies Inc.)**

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

| | Six months ended June 30 1999 | Eleven months ended December 31 1998 * |
|---|---|---|
| REVENUE | $2,776,333 | $4,236,376 |
| COST OF SALES | 1,443,055 | 2,534,061 |
| GROSS MARGIN | 1,333,278 | 1,702,315 |
| EXPENSES | | |
| Amortization | 101,591 | 170,734 |
| General and administrative | 168,498 | 420,883 |
| Interest | 25,521 | 53,690 |
| Salaries | 400,918 | 438,087 |
| | 696,528 | 1,083,394 |
| Earnings before following | 636,750 | 618,921 |
| Interest income | 6,024 | 14,781 |
| Other income | 13,043 | 28,400 |
| Forgiveness of debt (Note 10) | - | 122,642 |
| Earnings before income taxes | 655,817 | 784,744 |
| Income taxes (Note 11) | | |
| Current | 186,904 | 201,097 |
| Deferred | 3,134 | 5,676 |
| | 190,038 | 206,773 |
| NET EARNINGS | 465,779 | 577,971 |
| RETAINED EARNINGS (DEFICIT), beginning of period | 213,886 | (364,085) |
| RETAINED EARNINGS, end of period | $ 679,665 | $ 213,886 |
| Earnings per share - basic | $ 0.11 | $ 0.23 |
| - fully diluted | 0.10 | 0.20 |

* Includes nine months of consolidated operations with Rafna Industries Ltd. (Note 3(b))

**GLOBAL RAILWAY INDUSTRIES LTD.**
**(formerly RMN Technologies Inc.)**

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six months ended June 30 1999 | Eleven months ended December 31 1998 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net earnings for the period | $ 465,779 | $ 577,971 |
| Items not affecting cash | | |
| Gain on sale of capital assets | (2,708) | (420) |
| Forgiveness of debt | - | (122,642) |
| Amortization | 101,591 | 170,734 |
| Deferred tax | 3,134 | 5,676 |
| | 567,796 | 631,319 |
| Net change in non-cash working capital | (229,144) | (860,702) |
| Cash flows from (used in) operating activities | 338,652 | (229,383) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of goodwill | - | (927,133) |
| Purchase of capital assets | (71,132) | (568,246) |
| Proceeds from disposal of capital assets | 4,900 | 689 |
| Machinery deposit | (52,500) | - |
| Increase in long-term receivable | (88,008) | - |
| Cash flows from (used in) investing activities | (206,740) | (1,494,690) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issuance of share capital | 197,914 | 927,309 |
| Proceeds from long-term debt | - | 850,000 |
| Proceeds from (repayment of) operating loan | (120,000) | 280,000 |
| Repayment of long-term debt | (141,666) | (265,277) |
| Repayment of note payable | - | (88,682) |
| Proceeds from convertible debenture | - | 122,642 |
| Cash flows from (used in) financing activities | (63,752) | 1,825,992 |
| INCREASE IN CASH | 68,160 | 101,919 |
| CASH, beginning of period | 106,750 | 4,831 |
| CASH, end of period | $ 174,910 | $ 106,750 |

## 1. BUSINESS OF THE COMPANY

Global Railway Industries Ltd. is a railway services company. The company was incorporated in 1997 and commenced operations in 1998. The company's primary operations are carried out through its wholly owned subsidiary Rafna Industries Ltd. ("Rafna").

During the period, the company changed its name from RMN Technologies Inc. to Global Railway Industries Ltd.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the following significant accounting policies:

<u>Basis of Consolidation</u>

The consolidated financial statements include the accounts of Global Railway Industries Ltd., its wholly owned subsidiary Transportation Technologies Inc. ("TTI"), and Rafna a wholly owned subsidiary of TTI. All material intercompany transactions and balances have been eliminated.

<u>Inventories</u>

Inventories of components, purchased parts and finished goods are valued at the lower of cost, on a first in, first out basis, and net realizable value.

<u>Capital Assets</u>

Capital assets are recorded at cost and amortized using the following annual rates and methods:

| | | |
|---|---|---|
| Machinery | 30% | Declining balance |
| Computers | 30% | Declining balance |
| Vehicles | 30% | Declining balance |
| Furniture | 20% | Declining balance |
| Leasehold improvements | 1/5 | Straight-line |

<u>Goodwill</u>

Goodwill is recorded at cost less accumulated amortization and amortized on a straight-line basis over fifteen years.

<u>Earnings Per Share</u>

Basic and full diluted earnings per common share are based on the weighted average number of shares outstanding during the period.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

Revenue from product sales is generally recorded on shipment, with a provision for estimated returns recorded at that time. In addition, a provision for potential warranty claims is provided for at the time of sale, based on the warranty terms and prior claims experience. Contracts in process are recognized on a percentage of completion basis.

Income Taxes

The company follows the tax allocation method of accounting for income taxes whereby earnings are charged with income taxes related to the reported earnings.

Differences between such taxes and taxes currently payable arise because certain items of revenue and expense are reported in the accounts at different times than they are reported for income tax purposes.

Foreign Currency Translation

Monetary items denominated in foreign currency are translated to Canadian dollars using the year end exchange rate. Other balance sheet items are translated at historical exchange rates. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in the statement of operations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those reported.

## 3. ACQUISITION

a) On February 25, 1999, the company purchased all of the issued and outstanding shares of TTI.

The purchase was satisfied through the issuance of 2,836,442 shares of the company. This transaction has been accounted for as a reverse takeover by TTI, and these consolidated financial statements represent a continuation for accounting purposes of the financial statements of TTI and its wholly owned subsidiary Rafna.

The 2,836,442 shares of the company issued to effect the reverse takeover were recorded at a fair value of $179,914 which was allocated in its entirety to net current assets.

## 3. ACQUISITION (continued)

b) In the period ended December 31, 1998, TTI acquired all the issued and outstanding shares of Rafna. Total consideration was $2,453,505, satisfied through the issuance of 400,000 shares at $0.75 per share, cash of $1,853,505 and a note payable of $300,000. The purchase method of accounting was used to account for the acquisition. The total purchase price of the acquisition was allocated based on fair values as follows:

| | |
|---|---|
| Net current assets | $ 982,513 |
| Capital assets | 543,859 |
| Fair value of total net assets acquired | $1,526,372 |

The difference between the fair value of the consideration given and the fair value of the net assets acquired has been allocated to goodwill in these consolidated financial statements.

This transaction was effective March 31, 1998 and therefore the comparative figures only reflect nine months of consolidated operations with Rafna.

## 4. LONG-TERM RECEIVABLE

This receivable, due April 30, 2003, bears interest at a rate of 16.5% and is repayable by monthly blended payments of $2,594.

## 5. CAPITAL ASSETS

| | | | June 30 1999 | December 31 1998 |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | |
| Machinery | $ 451,550 | $ 122,524 | $ 329,026 | $ 367,520 |
| Computer | 96,800 | 23,216 | 73,584 | 48,936 |
| Vehicles | 23,783 | 8,116 | 15,667 | 18,432 |
| Furniture | 10,535 | 2,132 | 8,403 | 8,655 |
| Leasehold Improvements | 15,908 | 795 | 15,113 | - |
| | $ 598,576 | $ 156,783 | $ 441,793 | $ 443,573 |

Capital assets with a net book value of $263,500 have no corresponding tax value.

## 6. OPERATING LOAN

A Canadian chartered bank has provided the company with an operating loan for working capital. The maximum available under the operating loan is $400,000 and bears interest at bank prime plus 1%. The loan is secured on the same terms as the loan described in Note 7.

## 7. LONG-TERM DEBT

| | June 30 1999 | December 31 1998 |
|---|---|---|
| Loan payable bearing interest at bank prime plus 1.25% to 1.5% per annum dependent on debt service coverage and is repayable in monthly installments of $23,611 plus interest. | $ 443,057 | $ 584,723 |
| Less: current portion | 283,332 | 283,332 |
| | $ 159,725 | $ 301,391 |

Principal repayments due as follows:

| | |
|---|---|
| 2000 | $ 283,332 |
| 2001 | 159,925 |

The loan is secured by a general security agreement representing first charge on property owned by the company, an assignment of fire insurance and a guarantee of advances by a subsidiary and two shareholders. Although this loan is due on demand, the repayment terms indicated above have been accepted by the lender.

## 8. CONVERTIBLE DEBENTURE

The convertible debenture is unsecured and subordinated, to the right of payment of the demand loan (see Note 7). The debenture is convertible at the holders option into common shares of the company at any time at a price of $0.75 per common share. The debenture bears interest at 4% per annum, should no part of the debenture be exercised for payment or converted into common shares of the company within one year of the date of issue. No portion of the conversion feature has been allocated to the equity instrument component representing the option to convert this debenture for common shares.

## 9. SHARE CAPITAL

Authorized
Unlimited number of common voting shares
Unlimited number of preferred, redeemable shares

Issued

| | June 30 1999 | | December 31 1999 | |
|---|---|---|---|---|
| | Shares | Amount | Shares | Amount |
| Share capital, beginning of period | 2,050,000 | $1,087,339 | 1,600,030 | $ 160,030 |
| Shares issued, pursuant to private placement | - | - | 836,412 | 627,309 |
| Shares issued on purchase of Rafna (Note 3(b)) | - | - | 400,000 | 300,000 |
| Shares issued on reverse takeover (Note 3(a)) | 2,836,442 | 179,914 | - | - |
| Options exercised | 90,000 | 18,000 | - | - |
| Share capital, end of period | 4,976,442 | $1,285,253 | 2,836,442 | $1,087,339 |

The issued and outstanding share capital for the period ended December 31, 1998 reflects that of TTI as a result of the reverse takeover described in Note 3(a). The opening issued and outstanding share capital for the period ended June 30, 1999 reflects that of Global Railway Industries Ltd.

At June 30, 1999, 375,000 (December 31, 1998 - 215,000) options to purchase common shares at prices ranging between $0.20 and $1.50 per share were outstanding. The options expire November 17, 2002.

A total of 2,332,562 shares are being held in escrow pursuant to the requirements of the Alberta Securities Commission and the Alberta Stock Exchange.

## 10. FORGIVENESS OF DEBT

During the period ended December 31, 1998, a creditor agreed to a partial forgiveness of a note payable in return for the convertible debenture that is described in Note 8.

## 11. INCOME TAXES

The income tax provision differs from income taxes which would result from applying the expected income tax rate to net income before income taxes. The difference between the computed "expected" income tax expense and the actual income tax provision are summarized as follows:

| | June 30 1999 | December 31 1998 |
|---|---|---|
| Net earnings from operations | $ 655,817 | $ 784,744 |
| Expected income tax rate | 31.27% | 31.27% |
| Computed "expected" income tax expense | 205,074 | 245,389 |
| Difference resulting from: | | |
| Non-deductible amortization | 23,537 | 35,475 |
| Deductible share issuance costs | (1,857) | - |
| Non capital loss carryforwards | (39,843) | (81,908) |
| Other | 3,127 | 7,817 |
| Provision for income taxes | $ 190,038 | $ 206,773 |

The expected income tax rate reflects the combined Federal and Provincial in the Province of Quebec for manufacturing and processing companies.

## 12. FINANCIAL INSTRUMENTS

The carrying values of cash, accounts receivable, operating loan and accounts payable approximate their fair value given the relatively short periods to maturity of the instruments.

The carrying value of long-term debt approximates its fair value.

## 13. RELATED PARTY TRANSACTIONS

During the period ended June 30, 1999, the company advanced $23,244 (December 31, 1998 - nil) to an officer of the company. The amount has been included as part of accounts receivable. At December 31, 1998 a consulting fee was paid to a corporation, controlled by a director, in the amount of $50,000.

## 14. COMMITMENTS

a) The minimum rentals payable under long-term operating leases, exclusive of certain operating costs for which the company is responsible, are approximately as follows:

| | |
|---|---|
| 2000 | $234,964 |
| 2001 | 234,964 |
| 2002 | 234,964 |
| 2003 | 234,964 |
| 2004 | 195,803 |

b) A deposit of $52,500 for two prototype units has been made pursuant to the company's commitment to purchase commercial production units totalling $292,500.

## 15. SUBSEQUENT EVENT

a) The Corporation has entered into an agreement to offer for sale to the public a minimum 1,200,000 units to a maximum units at $2.50 per unit. The gross proceeds to the Corporation are estimated to be a minimum of $3,000,000 and a maximum $ before deducting expenses of this issue estimated at $60,000 and the Agent's expenses and commission estimated at a minimum of $240,000 and a maximum $ .

b) The Corporation will grant to its Agent, an option to purchase up to a minimum of 120,000 units and a maximum of units at a price of $2.50 per unit, for a period of twenty-four months following the date of the offering.

c) The Corporation has entered into a non binding letter of intent dated July 26, 1999 with Cam Barnfather, Gerald Marcoux, Lee Morrison and Wolfgang Kominski to acquire all the issued and outstanding shares of General Body and Equipment Ltd. for $5,100,000. The non binding letter of intent provides that the purchase price is to be paid as $3,056,000 in cash and $2,044,000 in common shares of the Corporation. The Common Shares to be issued by the Corporation as part of the purchase price are to be issued at a price equal to the lessor of the average fifteen day trading price of the Corporation immediately prior to closing of the purchase and sale or $3.00 per share.

## 16. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

*Financial statements of*

# RAFNA INDUSTRIES LTD.

*March 31, 1998*

## RAFNA INDUSTRIES LTD.
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Samson Bélair
Deloitte &
Touche

**Samson Bélair/Deloitte & Touche**, S.E.N.C.
**Chartered Accountants**
1 Place Ville-Marie
Suite 3000
Montréal QC H3B 4T9
Telephone: (514) 393-7115
Facsimile: (514) 393-7140

## Auditors' Report

To the Shareholders of
Rafna Industries Ltd.

We have audited the balance sheet of Raffia Industries Ltd. as at March 31, 1998 and the statements of earnings and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Because we were appointed auditors of the Company during the current year, we were not able to observe the counting of physical inventories at the beginning of the year nor satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories enter into the determination of the results of operations and changes in financial position, we were unable to determine whether adjustments to cost of sales, income taxes, net earnings for the year, opening retained earnings and net cash outflow might be necessary.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to examine opening inventory quantities, as described in the preceding paragraph, the statements of earnings and retained earnings and changes in financial position present fairly, in all material respects, the results of operations and the changes in financial position of the Company for the year ended March 31, 1998 in accordance with generally accepted accounting principles. Further, in our opinion, the balance sheet presents fairly, in all material respects, the financial position of the Company as at March 31, 1998 in accordance with generally accepted accounting principles.

"signed"

Chartered Accountants

July 31, 1998

**Deloitte Touche**
**Tohmatsu**
**International**

# RAFNA INDUSTRIES LTD.
**Statement of earnings and retained earnings**
**year ended March 31, 1998**

| | 1998 | 1997 |
|---|---|---|
| | **$** | **$ (unaudited)** |
| **Sales** | **3,736,932** | 3,206,571 |
| Cost of Sales | **(2,109,303)** | (2,010,734) |
| Gross margin | **1,627,629** | 1,195,837 |
| Interest income | **7,753** | 9,198 |
| Other income | **22,714** | 5,679 |
| | **1,658,096** | 1,210,714 |
| Operating expenses | | |
| Salaries | **575,546** | 565,096 |
| General and administrative | **341,037** | 151,217 |
| Professional fees | **45,487** | 28,809 |
| Depreciation | **44,987** | 66,759 |
| Bad debts | **17,963** | - |
| Write-down of inventory | **93,695** | - |
| Shop income | **(10,073)** | (33,711) |
| | **1,108,642** | 778,160 |
| Income before income taxes | **549,454** | 432,554 |
| Income taxes | **(166,412)** | (128,000) |
| **Net earnings** | **383,042** | 304,554 |
| Retained earnings, beginning of year | **249,724** | (54,830) |
| **Retained earnings, end of year** | **632,766** | 249,724 |

## RAFNA INDUSTRIES LTD.
**Balance sheet**
**as at March 31, 1998**

| | 1998 | 1997 |
|---|---|---|
| | **$** | **$ (unaudited)** |
| **Assets** | | |
| Current assets | | |
| Cash | **232,713** | 582,598 |
| Accounts receivable - trade | **648,905** | 219,618 |
| Accounts receivable - other | **16,816** | 32,063 |
| Inventories (Note 3) | **693,447** | 458,880 |
| Prepaids | **16,464** | - |
| | **1,608,345** | 1,293,159 |
| Property, plant and equipment (Note 4) | **143,859** | 139,549 |
| | **1,752,204** | 1,432,708 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **625,832** | 689,378 |
| Notes payable (Note 5) | **487,398** | 487,398 |
| | **1,113,230** | 1,176,776 |
| **Shareholder's equity** | | |
| Share capital (Note 6) | **6,208** | 6,208 |
| Retained earnings | **632,766** | 249,724 |
| | **638,974** | 255,932 |
| | **1,752,204** | 1,432,708 |

## RAFNA INDUSTRIES LTD.

**Statement of changes in financial position**
**year ended March 31, 1998**

| | 1998 | 1997 |
|---|---|---|
| | **$** | **$ (unaudited)** |
| **Operating activities** | | |
| Net earnings | **383,042** | 304,554 |
| Item not affecting cash | | |
| Depreciation and amortization | **44,987** | 66,759 |
| | **428,029** | 371,313 |
| Changes in non-cash operating working capital items | **(728,617)** | 42,501 |
| | **(300,588)** | 413,814 |
| **Investing activities** | | |
| Repayment of note payable | **-** | (350,000) |
| **Financing activities** | | |
| Disposal of fixed assets | **-** | 82,778 |
| Acquisition of fixed assets | **(49,297)** | - |
| Net cash (outflow) inflow | **(349,885)** | 146,592 |
| Cash position, beginning of year | **582,598** | 436,006 |
| **Cash Position, end of year** | **232,713** | 582,598 |

# RAFNA INDUSTRIES LTD.
## Notes to the financial statements
## year ended March 31, 1998

**1. Description of the business**

Rafna Industries Ltd, Manufactures and installs hi-rail equipment parts. The Company's operations are carried out at its manufacturing facility in Montreal, Quebec.

**2. Accounting policies**

The financial statements have been prepared in accordance with generally accepted accounting, principles and include the following significant accounting policies:

*Inventories*

Inventories of raw materials, work in progress and finished goods are valued at the lower of cost (on a first in, first out basis), and net realizable value, being replacement cost for raw materials and net realizable value for finished goods and work in progress.

*Property, plant and equipment*

Property, plant and equipment are stated at historical cost. Depreciation is provided on a straightline basis to allocate the cost of the assets over their estimated economic lives.

*Taxes*

The Company follows the tax allocation method of accounting for income taxes whereby earnings arc charged with income taxes related to reported earnings.

Differences between such taxes and taxes currently payable are reflected in the accounts and arise because certain items of revenue and expense are reported in the accounts at different times than they are reported for income tax purposes.

*Revenue recognition*

Revenue from product sales is generally recorded on shipment, with a provision for estimated returns recorded at that time. In addition, a provision for potential warranty claims is provided for at the time of sale, based on the warranty terms and prior claims experience.

**3. Inventories**

| | 1998 | 1997 |
|---|---|---|
| | $ | $ (unaudited) |
| Raw materials | 178,361 | 92,154 |
| Work in progress | 184,891 | 141,532 |
| Finished goods | 330,195 | 225,194 |
| | 693,447 | 458,880 |

## 4. Property, plant and equipment

| | 1998 | | | 1997 |
|---|---|---|---|---|
| | Cost | Accumulated Depreciation | Net Book Value | Net Book Value |
| | $ | $ | $ | $ (unaudited) |
| Machinery | 291,418 | 224,303 | 67,115 | 87,265 |
| Computers | 122,540 | 76,151 | 46,389 | 5,877 |
| Vehicles | 46,101 | 22,318 | 23,783 | 39,924 |
| Furniture | 36,414 | 29,842 | 6,572 | 6,483 |
| | 496,473 | 352,614 | 143,859 | 139,549 |

## 5. Notes Payable

The notes payable are to the former shareholders of Rafna Industries Ltd. The notes are unsecured. Under the terms of the notes, there is no interest payable and the principal amount is due at such time as the Company's cash flow can support such a payment.

## 6. Share capital

Authorized

Unlimited Class A, multiple voting common shares

Unlimited Class B, subordinate voting common shares

Unlimited Class C, non voting, redeemable preferred shares

Unlimited Class D, non voting, redeemable preferred shares

Unlimited Class E, subordinate, voting, non participating preferred shares

| | | 1998 | 1997 |
|---|---|---|---|
| | | $ | $ (unaudited) |
| Issued | | | |
| 131 | Class A common shares | 1,108 | 1,108 |
| 5,000 | Class B common shares | 5,000 | 5,000 |
| 70,000 | Class D preferred shares | 100 | 100 |
| | | 6,208 | 6,208 |

## 7. Commitments

The Company is committed under a lease for business premises for $83,300. The minimum amount payable over the next two years is:

| | $ |
|---|---|
| **1999** | **71,400** |
| **2000** | **11,900** |

## 8. Comparative balances

The comparative figures have not been audited or reviewed by another accounting firm.

## CERTIFICATE OF THE CORPORATION

**DATED:** October 26, 1999

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 8 of the *Securities Act* (Alberta) and Part XV of the *Securities Act* (Ontario), and the respective regulations thereunder.

| | |
|---|---|
| "Signed" | "Signed" |
| Michael Kohut | Dale Owen |
| Chief Executive Officer | Chief Financial Officer |

**On behalf of the Board of Directors**

| | |
|---|---|
| "Signed" | "Signed" |
| Tim Sanderson | Tim Tycholis |
| Director | Director |

## CERTIFICATE OF THE PROMOTERS

**DATED:** October 26, 1999

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 8 of the *Securities Act* (Alberta) and Part XV of the *Securities Act* (Ontario), and the respective regulations thereunder.

| | |
|---|---|
| "Signed" | "Signed" |
| Michael Kohut | Dale Owen |
| "Signed" | "Signed" |
| James Riddell | Tim Tycholis |
| "Signed" | |
| Tim Sanderson | |

# CERTIFICATE OF THE AGENT

**DATED:** October 26, 1999

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 8 of the *Securities Act* (Alberta) and Part XV of the *Securities Act* (Ontario), and the respective regulations thereunder.

ACUMEN CAPITAL FINANCE PARTNERS LIMITED

Per: "Signed"

The following includes the name of every person having an interest, either directly or indirectly, to the extent of not less than 5% in the capital of Acumen Capital Finance Partners Limited:
Bruce A. Ramsay, Kim Wong, Robert Laidlaw, Michael Hill, Curtis Mayert, Alfred Sailer.