

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF
(UNAUDITED)**



Three months ended March 31, 2008

RAILPOWER TECHNOLOGIES CORP.

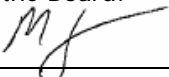
CONSOLIDATED BALANCE SHEETS
(EXPRESSED IN CANADIAN DOLLARS)

	March 31, 2008 (UNAUDITED)	December 31, 2007 (AUDITED)
Assets		
Current assets		
Cash and cash equivalents	\$ 27,376,602	\$ 2,669,674
Restricted investments (note 6)	513,250	495,650
Accounts receivable (note 7)	3,202,258	3,552,165
Deposits (note 8)	336,000	395,343
Inventory (note 9)	18,764,889	14,854,763
Prepaid expenses	430,466	370,576
	<u>50,623,465</u>	<u>22,338,171</u>
Capital assets	3,644,264	3,450,684
Leased locomotives	1,845,918	1,882,753
Patents	474,052	462,946
	<u>\$ 56,587,699</u>	<u>\$ 28,134,554</u>
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities		
Accounts payable and accrued liabilities	\$ 10,270,209	\$ 8,063,207
Advanced billing	3,516,643	5,108,504
Provision for warranties (note 10)	22,137,025	23,042,282
	<u>35,923,877</u>	<u>36,213,993</u>
Convertible debenture (note 11)	11,692,681	-
Shareholders' equity (deficiency)		
Share capital and warrants (note 12)	178,029,852	178,029,852
Equity portion of convertible debenture (note 11)	23,832,975	
Contributed surplus (note 12)	6,741,058	6,357,143
Deficit	(199,632,744)	(192,466,434)
	<u>8,971,141</u>	<u>(8,079,439)</u>
	<u>\$ 56,587,699</u>	<u>\$ 28,134,554</u>

Going concern (note 2)
Risks and uncertainties (note 3)
Contractual obligations and commitments (note 15)
Contingencies (notes 10 & 16)

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

Approved by the Board:


_____, Director
MARK WAYNE


_____, Director
JOSE MATHIEU

RAILPOWER TECHNOLOGIES CORP.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

	Three months ended March 31,	
	2008	2007
Common shares		
Balance, beginning of period	\$ 177,857,352	\$ 146,081,902
Issued for cash (net of share issuance costs)	-	31,775,450
Balance, end of period	\$ 177,857,352	\$ 177,857,352
Warrants		
Balance, beginning of period	172,500	-
Issued	-	172,500
Balance, end of period	172,500	172,500
Total share capital and warrants	\$ 178,029,852	\$ 178,029,852
Equity portion of convertible debenture		
Balance, beginning of period	-	-
Issuance of a convertible debenture - equity portion (note 11)	23,832,975	-
Balance, end of period	\$ 23,832,975	\$ -
Contributed surplus		
Balance, beginning of period	6,357,143	4,442,257
Stock-based compensation expense (note 12)	399,806	778,690
Reversal of stock based compensation expense (note 12)	(15,891)	(133,387)
Balance, end of period	\$ 6,741,058	\$ 5,087,560
Deficit		
Balance, beginning of period	(192,466,434)	(122,866,422)
Cumulative effect of adopting new accounting policies (note 5)	437,924	-
Net loss of the period	(7,604,234)	(8,351,520)
Balance, end of period	\$ (199,632,744)	\$ (131,217,942)
Accumulated other comprehensive loss	-	-
Total shareholders' equity	\$ 8,971,141	\$ 51,899,470

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

RAILPOWER TECHNOLOGIES CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

	Three months ended March 31,	
	2008	2007
Sales	\$ 3,324,419	\$ 25,120,659
Cost of goods sold (note 9)	(4,058,202)	(26,404,789)
Amortization of capital assets and leased locomotives	(361,714)	(173,910)
Amortization on patents	(6,300)	(6,300)
Amortization of government grants	46,047	19,048
Warranty expenses and other related expenses (note 10)	(478,125)	-
	(1,533,875)	(1,445,292)
Selling expenses	(460,557)	(327,142)
Service expenses	(819,551)	(1,438,499)
Engineering and research & development expenses	(2,258,802)	(2,096,311)
General and administrative expenses	(2,068,628)	(3,297,907)
Operating loss	(7,141,413)	(8,605,151)
Interest income	337,093	127,682
Foreign exchange gain	146,507	184,757
Convertible debenture interest and accretion (note 11)	(946,421)	-
Other interest expense	-	(58,808)
Loss and comprehensive loss for the period	\$ (7,604,234)	\$ (8,351,520)
Net loss per weighted average common share; basic and diluted	\$ (0.08)	\$ (0.11)
Weighted average number of common shares outstanding; basic and diluted	89,495,458	73,012,125

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

RAILPOWER TECHNOLOGIES CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

	Three months ended March 31,	
	2008	2007
Cash flows from operating activities		
Loss for the period	\$ (7,604,234)	\$ (8,351,520)
Items not involving cash		
Amortization of capital assets and leased locomotives	361,714	173,910
Amortization on patents	6,300	6,300
Amortization of government grants	(46,047)	(19,048)
Stock-based compensation	383,915	645,302
Accretion of convertible debenture	525,656	-
Changes in working capital and other items		
Decrease in accounts receivable	349,907	4,621,233
Decrease in deposits	59,343	10,573
Increase in inventory	(3,643,534)	(7,595,755)
(Increase) decrease in prepaid expenses	(59,890)	223,022
Increase in accounts payable and accrued liabilities	2,207,002	2,249,944
Decrease in advance billing	(1,591,861)	(10,988,813)
(Decrease) increase in provision for warranties	(905,257)	1,198,760
Decrease in provision for contract losses	-	(2,847,114)
Net cash used in operating activities	(9,956,986)	(20,673,206)
Cash flows from investing activities		
(Increase) decrease in restricted investments	(17,600)	433,169
Expenditures on patents	(17,406)	(29,323)
Expenditures on capital assets	(472,412)	(137,843)
Net cash (used in) provided by investing activities	(507,418)	266,003
Cash flows from financing activities		
Repayment of term loan	-	(117,328)
Issuance of convertible debenture	35,000,000	-
Government grants ⁽¹⁾⁽²⁾	171,332	119,015
Issuance of common stock and warrants for cash, net of share issue costs	-	31,947,950
Net cash provided by financing activities	35,171,332	31,949,637
Net increase in cash and cash equivalents	24,706,928	11,542,434
Cash and cash equivalents, beginning of the period	2,669,674	1,130,011
Cash and cash equivalents, end of the period	\$ 27,376,602	\$ 12,672,445

(1) During the three months ended March 31, 2008, the Corporation received a grant for a total amount of \$171,332 from the Government of Canada to help reduce the cost of three locomotives in inventory.

(2) During the three months ended March 31, 2007, the Corporation received a grant for a total amount of \$119,015 from the Texas Commission on Environment Quality to help reduce the development of a new technology. The amounts received were deferred and presented in reduction of demonstration units.

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

RAILPOWER TECHNOLOGIES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

1. THE CORPORATION

Railpower Technologies Corp. (the "Corporation") is a public corporation listed on the Toronto Stock Exchange ("TSX") formed under the Canada Business Corporations Act on June 30, 2001.

The Corporation is engaged in the development, construction, marketing and sales of specialized energy technology systems for transportation and power generation.

A subsidiary, Railpower Hybrid Technologies Corp., was incorporated under the laws of the State of Washington in January 2004 and has its principal office in Erie, Pennsylvania.

2. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Corporation will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

There is doubt about the appropriateness of the use of the going concern assumption because the Corporation experienced significant losses in 2007 and 2006 and has experienced significant negative cash flow from operations over a number of years. As described in Note 10, during the course of 2007, the Corporation had to recall 59 units of its Green Goat Series belonging to its customers. This resulted in the Corporation's having an additional short term obligation of approximately \$15.7 million and produced an unexpected strain on the Corporation's projected cash flow.

In order to fund this new obligation, the Corporation completed a \$35 million private placement with Ontario Teachers' Pension Plan Board in the form of a convertible debenture during the first quarter of 2008 (see Note 11). The Corporation must also enter into an agreement with a financial institution for an operating credit line to cover its working capital needs. There is no assurance that such financing will be available to the Corporation. The future of the Corporation also depends on various factors described in Note 3, Risks and Uncertainties.

The ability of the Corporation to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the successful completion of the actions taken or planned, some of which are described above, which management believes will mitigate the adverse conditions and events which raise doubt about the validity of the "going concern" assumption used in preparing these financial statements. There is no certainty that these and other strategies will be sufficient to permit the Corporation to continue operations beyond March 31, 2009.

The financial statements do not reflect adjustments that would be necessary if the "going concern" assumption were not appropriate. If the "going concern" basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

RAILPOWER TECHNOLOGIES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

3. RISKS AND UNCERTAINTIES

(a) USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. These estimates and assumptions are based on management's historical experience, knowledge of current events and conditions and activities that the Corporation may undertake in the future. Significant estimates include, but are not limited to:

- the key economic assumptions used to determine the projected cash flows used in supporting the going concern assumption;
- the provision for contract losses;
- the provision for warranties;
- the allowance for doubtful accounts;
- the allowance for inventory obsolescence and its net realizable value;
- the estimated useful lives of assets;
- the valuation allowances for future income tax assets;
- the accrual of contingencies.

The most significant estimates affect inventory valuation, the provision for warranties and the provision for contract losses. These depend upon subjective or complex judgments about matters that are uncertain and both internal and external conditions which are evolving. Changes in those estimates could materially impact the consolidated financial statements. They are also subject to uncertainties both internal and external to the Corporation, some of which stem from the dependencies described in note 3 (b). Management reviews these estimates on an on-going basis. Adjustments, if any, will be reflected in operations in the period the uncertainty is resolved.

(b) DEPENDENCIES

Customers

Due to the nature of the North American railroad industry, the Corporation depends on a limited number of potential customers. Its largest potential customers are the seven Class I railroads and locomotive leasing companies in North America. It may also receive orders from smaller railroads but the size of these orders will be significantly smaller than those placed by Class I railroads. Currently, sales to two customers accounted for 100% of total sales for the three months ended March 31, 2008.

RAILPOWER TECHNOLOGIES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

3. RISKS AND UNCERTAINTIES (CONTINUED)

(b) DEPENDENCIES (CONTINUED)

Contract manufacturers and suppliers

In order to fulfill its obligation towards its customers, the Corporation is also dependant on one contract manufacturer to assemble the locomotives and on a limited number of key suppliers. Prolonged disruptions in the assembly of locomotives and or delays in the supply of quality materials could have a material adverse effect on the Corporation's operating results and financial condition as it would affect its ability to fulfill its commitment to customers in relation to timing, quality, quantity and cost. As a result, the Corporation could be subject to significant liabilities towards its customers.

(c) MEASUREMENT UNCERTAINTY

As disclosed in note 3(a), the preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Certain risks and factors could materially affect the degree of uncertainty associated with the measurement of many amounts in the financial statements. Adequacy of the Corporation's provisions for warranties and for contract losses are items subject to significant measurement uncertainty as explained below.

Warranties

The Corporation began commercial production and delivery of Green Goat locomotives in 2005, road switcher locomotives in 2006 and cranes in 2007. As with any new product, it is possible that the long term use of our locomotives in actual working conditions may expose some weaknesses, failures or shortcomings in our designs, specifications, manufacturing techniques, components or systems. As the Corporation's products are sold with a limited warranty, it may experience warranty repair costs in excess of its current expectations. It is also possible that problems arise with respect to a significant component or give rise to a safety or liability issue for which it may need to consider a redesign, re-specification or recall. The Corporation provides for the estimate of warranty cost based on contract terms, historical warranty loss experience and future expectations and is periodically adjusted for recent actual experience. Because warranty estimates are forecasts that are based on the best available information, future claims costs may differ from the amount provided for. The Corporation adjusts initial provisions for warranties as changes in the future obligations become reasonably estimable.

RAILPOWER TECHNOLOGIES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
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3. RISKS AND UNCERTAINTIES (CONTINUED)

(c) MEASUREMENT UNCERTAINTY (CONTINUED)

Provisions for contract losses

In estimating the loss on a contract, all related known and estimable costs are considered including those related to direct overhead, warranties, and penalties. As the Corporation is in its early stages of production, overhead rates are based on an estimate of normal subcontractor man hours required for production. Judgment is involved in differentiating between actual production man hours and man hours incurred for evolving design and production needs. As the Corporation is dependant on key suppliers and a contract manufacturer, delays in procurement and production may result in the delivery schedule not being met and liabilities being incurred. Management continuously monitors its ability to meet the required deadlines and includes potential contract penalties when it becomes apparent that the delivery schedule will not be met.

4. BASIS OF PRESENTATION

In the opinion of management, these unaudited interim consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), contain all adjustments necessary to fairly present Railpower's financial position as at March 31, 2008 as well as its results of operations and its cash flows for the three months ended March 31, 2008 and 2007.

These unaudited interim consolidated financial statements do not include all of the information and disclosures required by GAAP for annual financial statements. While management believes that the disclosures presented are adequate, these unaudited interim consolidated financial statements and notes should be read in conjunction with Railpower's annual consolidated financial statements for the year ended December 31, 2007.

These unaudited interim consolidated financial statements follow the same accounting policies as the most recent annual consolidated financial statements, except for the changes discussed in note 5.

RAILPOWER TECHNOLOGIES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

5. CHANGES IN ACCOUNTING POLICIES

(a) NEW ACCOUNTING POLICIES

Effective January 1st 2008, the Corporation has adopted new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") as follows:

Inventories

Handbook section 3031, Inventories establishes standards on the definition of "cost" to include all costs of purchase (net supplier payment discounts), cost of conversion and other costs incurred in bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate variable and fixed production overhead expenses that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the section requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carry values for raw material inventories do not require write downs if the finished goods in which they will be utilized are expected to be sold at or above cost. This standard requires disclosing, in the current period, of the amount recognized as an expense and the amount recognized as a reversal of previous write-downs.

The Corporation adopted the new standard on a retroactive basis without restatement of prior periods. As a result, the Corporation recorded an increase of \$437,924 to opening deficit as a result of the reversal of impairment charges on certain finished goods including two units carried at their net realizable value for which the Corporation has obtained subsequently new contracts at higher selling prices.

Capital Disclosures

Handbook Section 1535, Capital Disclosures, provides criteria for disclosing (i) the entity's objectives, policies and processes for managing capital; (ii) the quantitative data about what the entity considers capital; (iii) whether the entity has complied with any capital requirements; and (iv) the consequences of non-compliance. Other than the additional disclosure in note 14, the adoption of the Section has had no impact on the Company's financial statements.

Financial Instruments

Handbook Sections 3862, Financial Instruments – Disclosure, and *3863, Financial Instruments – Presentation* replaced *Section 3861, Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements while carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Other than the additional disclosure in note 13, the adoption of the Section has had no impact on the Company's financial statements.

RAILPOWER TECHNOLOGIES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
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5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) NEW ACCOUNTING POLICIES (CONTINUED)

Financial Instruments (continued)

On March 5, 2007, the *Emerging Issues Committee* issued *EIC-164 Convertible and Other Embedded Derivatives* which provides guidance on whether an issuer of certain types of convertible debt instruments should classify the instruments as liabilities or equity, whether the instruments contain any embedded derivatives, and how the instruments should be accounted for and presented. The guidance also addresses earnings per share implications. The Corporation adopted this guidance in first quarter of 2007 to financial instruments accounted for in accordance with section 3855.

Standard of Financial Statement Presentation

In June 2007, the CICA released new *Handbook Section 1400, General Standard of Financial Statement Presentation*, effective for annual and interim periods beginning on or after January 1, 2008. This new section provides additional guidance related to management's assessment of the Corporation's ability to continue as a going concern. The adoption of the new section does not have any impact on the presentation of the current financial statements.

(b) NEW ACCOUNTING PRONOUNCEMENTS

Harmonizing of Canadian and International Standards

On February 13, 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") would be required in 2011 for publicly accountable profit-oriented enterprises. The Corporation will closely monitor changes arising from this transition to IFRS.

Goodwill and Intangible Assets

In February 2008, the CICA released *Handbook Section 3064, Goodwill and Intangible Assets* and amended *Section 1000, Financial Statement Concepts* clarifying the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. The standard is effective for fiscal years beginning on or after October 1, 2008 and early adoption is permitted. The Corporation is currently assessing the impact of the new recommendations on its financial statements.

6. RESTRICTED INVESTMENTS

As at March 31, 2008, the Corporation has invested a total of US\$500,000 (US\$500,000 as at December 2007) in one Guaranteed Investment Certificate ("GIC") expiring on April 28, 2008. The GIC is redeemable prior to maturity and is yielding 3.02% at March 31, 2008 (4.63% at December 31, 2007). The GIC is held as security by a financial institution as collateral against the corporate credit card line.

RAILPOWER TECHNOLOGIES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

7. ACCOUNTS RECEIVABLE

	March 31, 2008	December 31, 2007
Trade	\$ 1,442,392	\$ 17,317
Sales tax	1,562,098	3,402,218
Interest and other	197,768	132,630
	\$ 3,202,258	\$ 3,552,165

8. DEPOSITS

Deposits represent an amount held as collateral by Revenue Canada on potential sales tax payable by the US subsidiary.

9. INVENTORY

	March 31, 2008	December 31, 2007
Raw materials	\$ 7,785,342	\$ 6,608,452
Work in process	3,880,294	1,863,580
Finished goods	7,099,253	6,382,731
	\$ 18,764,889	\$ 14,854,763

During the quarter, \$2,887,642 of inventory was expensed in the cost of goods sold (\$25,307,132 for the same period in 2007). The remaining amount included in the cost of goods sold is mainly unallocated manufacturing expenses.

RAILPOWER TECHNOLOGIES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

10. PROVISION FOR WARRANTIES

The following table outlines the variations in the provision for warranties for the period:

	Three month period ended March 31, 2008		
	Recall provision (i)	Regular warranty provision	Total warranty provision
Balance at the beginning of the period	\$ 13,701,719	\$ 9,340,563	\$ 23,042,282
Additional increases in provision	248,413	55,167	303,580
Actual costs incurred during the period	(920,187)	(288,650)	(1,208,837)
Balance at the end of the period	\$ 13,029,945	\$ 9,107,080	\$ 22,137,025

i) On June 1, 2007, the Corporation announced a recall of 59 units of its Green Goat series of yard switcher locomotives (Generation I, II and III models and the Green Kids).

The additional provision for recall recorded during the quarter represents actual costs incurred to finalize the conversion of the Generation III units. As at March 31, 2008, the balance of the recall provision is relating to Generation I, II and Green Kids series for the conversion of these units into a more recent model.

ii) Subsequently to the end of the quarter, the Corporation received a notice of arbitration from Railserve bearing on the following subject. Following the Green Goats' recall in June 2007, the Corporation and Railserve entered into an agreement pursuant to which the Corporation agreed to repair the Green Goat locomotives in order to allow their safe operation and in accordance with the initial contract requirements, according to a delivery schedule. They also agreed that should the Corporation fail at repairing the locomotives in order to allow their safe operation or should the parties disagree on whether the repairs are adequate to render the locomotives safe, the parties would hold a technical arbitration in order to make that determination. Railserve contends that the repairs performed on three of the locomotives which were modified following the recall are not adequate to make them safe and in accordance with the initial contract requirements. According to the contract, Railserve has 21 days to provide a full report with details regarding their contention from the initial notice of arbitration and as of this date, the Corporation has not received said report. Should the arbitration lead to an unfavorable decision to the Corporation, it may have to convert the Green Goat locomotives owned by Railserve into multi-genset technology. Although, at this stage, the final outcome of this situation can not be determined, it is the management's assessment that an unfavorable determination by the arbitrator regarding the safety of the modifications is unlikely and accordingly, no provision has been made as at March 31, 2008.

RAILPOWER TECHNOLOGIES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
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10. PROVISION FOR WARRANTIES (CONTINUED)

iii) Although this amount represents Management's best estimate, there remains uncertainty as to the eventual outcome.

11. CONVERTIBLE DEBENTURE

On January 4, 2008, the Corporation issued a \$35,000,000 unsecured convertible debenture maturing on January 4, 2013 and bearing an interest rate of 5% per annum, payable in arrears semi-annually at the discretion of the Corporation in either cash or common shares based on the weighted average market prices of the common shares over the five days prior to the date of payment. The initial principal amount of the debenture is convertible, at the election of the holder, in whole or in part, into either common shares or a new class of convertible restricted voting shares created by the Corporation, or any combination thereof, at a conversion ratio of \$0.30 per share, representing up to 116,666,667 shares. The new class of convertible restricted voting shares is convertible into common shares, at the option of the holder, on a one-for-one, share for share basis.

From and after three years from the date of its issuance and until maturity, the debenture will be redeemable by the Corporation, at par plus accrued and unpaid interest, provided that the market price of the common share on the TSX is not less than 125% of the conversion price of 0.30\$. At maturity or redemption, the Corporation will have the option to repay the indebtedness in whole or in part either in cash or by the issuance of shares based on 95% of the market price of the common shares.

As the convertible debenture is considered to be a compound financial instrument, the liability and the equity component are presented separately. At the issuance of the debenture, the Corporation valued the liability component of the convertible debenture by discounting the stream of future payments of interest and principal at the prevailing rate for similar liabilities that do not have an associated conversion feature, estimated at an effective rate of 34.5% per annum. The residual amount of the convertible debenture was assigned to the equity component. All transaction costs related to this financial instrument were recorded in expenses when incurred (\$48,250 during the three months ended March 31, 2008 and \$390,618 in 2007). The liability component of the debenture will be accreted to the face value of the debenture over the five year term with a resulting charge to interest expense. Refer to Note 13 for fair value of the convertible debenture at March 31, 2008.

RAILPOWER TECHNOLOGIES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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11. CONVERTIBLE DEBENTURE (CONTINUED)

The following summarizes the Corporation's accounting for its convertible debenture:

		Equity Component		Liability Component
Balance, December 31, 2007	\$	-	\$	-
Issued on January 4, 2008		23,832,975		11,167,025
Accretion of liability component		-		525,656
Balance, March 31, 2008	\$	23,832,975	\$	11,692,681

12. SHARE CAPITAL

(a) AUTHORIZED

- i) Unlimited number of voting common shares without nominal or par value.
- ii) Unlimited number of restricted voting Class A convertible into voting common shares without nominal or par value, convertible on a one-for-one share for share basis.

(b) COMMON SHARES ISSUED

	Shares		Amount
Balance, December 31, 2007 and March 31, 2008	89,495,458	\$	177,857,352

(c) WARRANTS

	Warrants	Amount	Weighted average exercise price
Balance, December 31, 2007 and March 31, 2008	17,250,000	\$ 172,500	\$ 1.25

RAILPOWER TECHNOLOGIES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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12. SHARE CAPITAL (CONTINUED)

(d) DIRECTOR AND EMPLOYEE OPTIONS

The Corporation's stock-based compensation plan for its directors, officers, consultants and employees allows a number of options equal to 12% of the outstanding common shares. The outstanding options issued under the plan vest over a period of three years.

The status of the Corporation's stock-based compensation plan as of March 31, 2008 and changes during the period ended on that date are presented below:

	Number of shares	Weighted average price
Outstanding, December 31, 2007	5,040,033	\$ 1.94
Granted	145,000	0.34
Expired/cancelled	(158,666)	1.38
Outstanding, March 31, 2008	5,026,367	\$ 1.91
Exercisable, March 31, 2008	2,571,368	\$ 2.28

The fair value of the options granted has been determined using the Black-Scholes option pricing model with the following assumptions:

	Three months ended March 31, 2008
Risk-free interest rate	4.00%
Expected life	4 years
Expected volatility	135%
Expected dividends	-

The total stock-based compensation expense for the three months ended March 31, 2008 and 2007 was \$383,915 and \$645,302, respectively.

RAILPOWER TECHNOLOGIES CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
(UNAUDITED)

13. FINANCIAL INSTRUMENTS

(a) FAIR VALUES

The Corporation financial instruments include cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities and convertible debenture. The fair value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities approximate their carrying values due to the short term to maturity. The fair value of the convertible debenture is estimated based on the rates currently available to the Corporation for a similar instrument that would be issued at balance sheet date. As at March 31, 2008, the estimated fair value of the liability portion of the convertible debenture does not differ significantly from its carrying value.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(b) RISK MANAGEMENT POLICIES

The Corporation, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at the balance sheet date of March 31, 2008.

Credit risk

The Corporation principal financial assets are cash and cash equivalents, restricted investments and trade receivables, which represent the Corporation's exposure to credit risk in relation to financial assets.

Credit risk arises from the possibility that entities to which the Corporation sells products may experience financial difficulty and be unable to fulfill their contractual obligations. The Corporation's credit risk is primarily attributable to its trade receivables. The amount disclosed in note 7 is net of allowance for bad debts, estimated by the Corporation's management based on prior experience and their assessment of the current economic environment. The Corporation believes that the credit risk of trade receivables is limited due to the fact that the customer base is principally class 1 railroad's companies, which have very high credit ratings. As at March 31, 2008, 97% of the total amount in trade receivables were outstanding less than 30 days.

The cash and cash equivalents and restricted investments are largely invested in Canadian dollar banker's acceptances on which the credit risk is limited because the counterparties are Canadian banks with high credit ratings.

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13. FINANCIAL INSTRUMENTS (CONTINUED)

(b) RISK MANAGEMENT POLICIES (CONTINUED)

Liquidity risk

Liquidity risk exists when the Corporation is not able to meet its financial obligations as they fall due. The Corporation manages this risk by maintaining detailed cash forecasts, as well as long-term operating and strategic plans. The Corporation's growth is financed through the combination of cash flow from operations, debt borrowings and the issuance of equity. As at March 31, 2008, the Corporation had a cash balance of \$27,376,602 to settle accounts payable and accrued liabilities of \$10,270,209. The Corporation was also committed to spending \$9,261,575 in the next 12 months and has to support operating expenses. The Corporation does not presently have any operating credit line and is actively working to enter into an agreement with a financial institution in order to cover its working capital needs. Please refer to Note 2.

Foreign exchange risk

Foreign exchange risk exists when the fair value or future cash flows of a financial instrument will fluctuate with changes in the foreign exchange rates. The Corporation is subject to foreign currency risk on sales of product mainly invoiced and collected in U.S. dominated currency. This risk is partially offset by the purchase of raw material inventory from U.S. based suppliers and the occurrence of certain operating expenses in U.S. dollars. At March 31, 2008, the Corporation held \$2,933,365 (December 31, 2007 - \$ 2,652,148) in cash, \$1,405,155 (December 31, 2007 - \$ 17,469) in accounts receivable and \$6,128,288 (December 31, 2007, \$5,720,156) in accounts payable and accrued liabilities, which were denominated in U.S. dollars. These balances are subject to change in fluctuations in the foreign currency rates. At March 31, 2008, if the Canadian dollar changed by 5% relative to the U.S. dollar, with all other variables held constant, the net loss for the three month period would have changed by \$371,927. The timing and volume of the transactions described above change as well as the timing of their settlement will have an impact on this sensitivity analysis.

The Corporation does not use derivative instruments to reduce its exposure to foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has short-term cash investments in its cash and cash equivalents and in its restricted investments which were outstanding throughout the period as well as a convertible debenture. The short-term cash investments are largely invested in Canadian dollar banker's acceptances for a one month period providing a fixed interest rate. Interest rate risk on these investments is considered low because the exposure on fair value is limited due to the short term. The convertible debenture with a \$35,000,000 nominal value, has fixed interest rate and is therefore not exposed to cash flow interest rate risk. However, this would have an impact on the fair value of the instrument. If the market interest rate changed by 1%, the fair value of the convertible debenture would change by \$373,728.

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14. CAPITAL MANAGEMENT

It is the Corporation's objective when managing capital to safeguard the Corporation ability to continue as a going concern in order to provide future returns to shareholders and benefits for other stakeholders. The Corporation defines capital as shareholders' equity, convertible debenture, and long term debt, if any. The Corporation manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

Since its incorporation, the Corporation has not been able to generate positive cash flow from operations. It relies on different forms of debt and equity financing to maintain the level of capital required to support its growth objectives.

The Corporation is not subject to any capital requirements imposed by a regulator.

15. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table outlines the contractual obligations and commitments to make future payments for contracts such as commercial commitments and operating leases as at March 31, 2007:

	Suppliers		Subcontractors		Operating leases		Total	
2008	\$	6,363,195	\$	2,513,294	\$	385,186	\$	9,261,675
2009		-		-		223,920		223,920
2010		-		-		174,434		174,434
2011		-		-		161,534		161,534
2012		-		-		161,534		161,534
Thereafter		-		-		524,986		524,986
Total	\$	6,363,195	\$	2,513,294	\$	1,631,594	\$	10,508,083

The Corporation has not entered into any other off balance sheet arrangements, hedges or other financial instruments.

16. CONTINGENCIES

In the normal course of operations, the Corporation may become involved in various legal actions. As at March 31, 2008, the Corporation was party to one legal action for an amount of \$363,000 which is being contested. While the final outcome with respect to the pending action cannot be predicted with certainty, it is management's opinion that its resolution will not have a material adverse effect on the Corporation's financial position, earnings or cash flows.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statements presentation adopted for the current year.